



2018 AND 2017
FINANCIAL STATEMENTS





Independent Auditors' Report

Board of Directors
Homeward Pet Adoption Center
Woodinville, Washington

We have audited the accompanying financial statements of Homeward Pet Adoption Center (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Bader Martin, P.S. Certified Public Accountants + Business Advisors

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Board of Directors
Homeward Pet Adoption Center
Woodinville, Washington

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homeward Pet Adoption Center as of December 31, 2018 and 2017, 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.

Changes in Financial Statement Presentation

As discussed in Note 2, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Bader Martin, P.S.

November 27, 2019

HOMeward PET ADOPTION CENTER

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 583,464	\$ 735,989
Investments	796,866	
Accounts receivable	64,653	48,578
Inventory	52,809	42,912
Prepaid expenses	25,630	35,361
Total current assets	1,523,422	862,840
Deposit	37,000	37,000
Leasehold improvements and equipment, net	36,603	42,261
Other assets		11,275
	<u>\$ 1,597,025</u>	<u>\$ 953,376</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 62,722	\$ 57,839
Deferred revenue		13,000
Deferred rent	16,018	11,837
Current portion of note payable	15,093	22,644
Total current liabilities	93,833	105,320
Note payable, net current portion		15,097
Total liabilities	93,833	120,417
Net assets:		
Without donor restrictions	1,326,803	638,259
With donor restrictions	176,389	194,700
Total net assets	1,503,192	832,959
	<u>\$ 1,597,025</u>	<u>\$ 953,376</u>

See notes to financial statements.

HOMeward PET ADOPTION CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Contributions	\$ 1,470,816	\$ 64,795	\$ 1,535,611
Adoptions	229,367		229,367
Special events, net of expenses of \$182,375	323,830		323,830
In-kind contributions	250,833		250,833
Foundation grants	63,289		63,289
Other income	174,970		174,970
Net assets released from restrictions	83,106	(83,106)	
Total revenue and support	2,596,211	(18,311)	2,577,900
Expenses:			
Program	1,353,975		1,353,975
Management and general	238,120		238,120
Fundraising	315,572		315,572
Total expenses	1,907,667		1,907,667
Change in net assets	688,544	(18,311)	670,233
Net assets, beginning of year	638,259	194,700	832,959
Net assets, end of year	\$ 1,326,803	\$ 176,389	\$ 1,503,192

See notes to financial statements.

HOMeward PET ADOPTION CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Contributions	\$ 885,968	\$ 103,622	\$ 989,590
Adoptions	247,410		247,410
Special events, net of expenses of \$180,337	291,824		291,824
In-kind contributions	226,665		226,665
Foundation grants	52,673		52,673
Other income	1,905		1,905
Net assets released from restrictions	73,751	(73,751)	
Total revenue and support	1,780,196	29,871	1,810,067
Expenses:			
Program	1,233,285		1,233,285
Management and general	180,292		180,292
Fundraising	309,374		309,374
Total expenses	1,722,951		1,722,951
Change in net assets	57,245	29,871	87,116
Net assets, beginning of year	581,014	164,829	745,843
Net assets, end of year	\$ 638,259	\$ 194,700	\$ 832,959

See notes to financial statements.

HOMeward PET ADOPTION CENTER

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 756,887	\$ 126,132	\$ 221,414	\$ 1,104,433
Animal care	316,394			316,394
Facilities	163,706	20,464	20,464	204,634
Office	29,636	1,179	59,058	89,873
Professional fees	17,550	63,342		80,892
Technology	7,608	22,613	6,060	36,281
Miscellaneous	21,549	1,495	4,989	28,033
Depreciation	11,740	1,467	1,467	14,674
Marketing	8,481		2,120	10,601
Travel	6,872			6,872
Store expenses	5,521			5,521
Insurance	3,332	1,428		4,760
Volunteer expenses	4,699			4,699
Total expenses	<u>\$ 1,353,975</u>	<u>\$ 238,120</u>	<u>\$ 315,572</u>	<u>\$ 1,907,667</u>

See notes to financial statements.

HOMeward PET ADOPTION CENTER

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 726,291	\$ 87,565	\$ 223,069	\$ 1,036,925
Animal care	268,079			268,079
Facilities	152,434	19,054	19,054	190,542
Office	23,633	1,833	53,365	78,831
Professional fees	1,402	49,112		50,514
Technology	3,787	17,674	3,787	25,248
Miscellaneous	15,400	1,859	6,005	23,264
Depreciation	14,209	1,776	1,776	17,761
Marketing	5,279		2,318	7,597
Travel	4,292			4,292
Store expenses	6,603			6,603
Insurance	3,313	1,419		4,732
Volunteer expenses	8,563			8,563
Total expenses	<u>\$ 1,233,285</u>	<u>\$ 180,292</u>	<u>\$ 309,374</u>	<u>\$ 1,722,951</u>

See notes to financial statements.

HOMEWARD PET ADOPTION CENTER

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 670,233	\$ 87,116
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,674	17,761
Net unrealized loss on investments	5,822	
Gain on disposal of donated property	(177,566)	
Donated investments	(982)	
Donated property	(475,000)	
Donated leasehold improvements and equipment	(2,871)	
Net change in assets and liabilities:		
Accounts receivable	(16,075)	14,584
Inventory	(9,897)	(9,055)
Prepaid expenses	9,731	(3,650)
Other assets	11,275	16,914
Accounts payable	4,883	2,393
Deferred revenue	(13,000)	3,720
Deferred rent	4,181	9,221
Net cash provided by operating activities	<u>25,408</u>	<u>139,004</u>
Cash flows from investing activities:		
Purchases of investments	(801,706)	
Purchases of leasehold improvements and equipment	(6,145)	(5,963)
Proceeds from sale of property	652,566	
Net cash used in investment activities	<u>(155,285)</u>	<u>(5,963)</u>
Cash flows used in financing activities, payments on note payable	<u>(22,648)</u>	<u>(22,649)</u>
Net change in cash and cash equivalents	(152,525)	110,392
Cash and cash equivalents, beginning of year	<u>735,989</u>	<u>625,597</u>
Cash and cash equivalents, end of year	<u><u>\$ 583,464</u></u>	<u><u>\$ 735,989</u></u>

See notes to financial statements.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization:

Homeward Pet Adoption Center (the Organization), located in Woodinville, is one of the leading no-kill animal shelters in Washington State. Founded in 1990, the Organization transforms the lives of cats and dogs in need through compassionate medical care, positive behavior training, and successful adoption while building a more humane community.

The Organization finds new homes for over 1,800 cats, dogs, puppies, and kittens every year. The Organization also provides extensive community outreach programs including distributing food and supplies to 21 area food banks and offering reduced fees for pet services through their Public Spay and Neuter program.

2. Summary of significant accounting policies:

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and revenue recognition:

Net assets, revenues, expenses, 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 that consist of assets, liabilities, revenue, and expenses available for current programs and administration. It also consists of capital assets acquired through expenditure of unrestricted funds or in satisfaction of restrictions on funds contributed to purchase capital assets.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations, and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions consist of endowment fund investments to be held indefinitely, the income from which may be used to support the Organization's activities.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Net assets and revenue recognition (continued):

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. When a restriction expires or the stipulated purpose has been fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. When donor restrictions are met in the same time period in which the contribution is received, the Organization reports the support as without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Adoption fees are recognized as revenue when the customer signs the adoption agreement. The Organization sells items needed for animal care that are recognized upon sale of items, net of sales taxes, discounts, and estimated sales returns. Pet service fees are recognized as revenue when the services are provided.

Cash and cash equivalents:

The Organization considers demand deposit accounts and other unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with financial institutions and, at times, balances may exceed federally insured limits.

Investments:

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Net investment return (loss) is reported on the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Fair value measurements:

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Organization can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are unobservable for the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value:

- Money market mutual funds and exchange traded funds, and domestic equity securities – Valued at quoted market prices in active markets, which represent the net asset value of shares held by the Organization at year-end (Level 1).

There have been no changes in the valuation techniques used during the year ended December 31, 2018.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Accounts receivable:

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Receivables are considered delinquent if payments are not received in accordance with the contractual terms. Specific accounts are written off against the allowance after management has used all reasonable means to collect. The Organization has determined that no valuation allowance for accounts receivable is necessary as of December 31, 2018 and 2017.

Inventory:

Inventory is stated at the lower of cost and net realizable value under the first-in, first-out method of accounting and consists of medical and other supplies, and pet foods. Donated inventory is valued at estimated fair value using a blended price times the quantity received of the donated item.

Deferred rent:

An asset or liability is recorded for the difference between the straight-line rent expense (including renewal options) and cash payments made in accordance with the terms of the lease.

Leasehold improvements and equipment:

Leasehold improvements and equipment are recorded at cost, except for donated items which are stated at their estimated fair value at the date of the gift. All assets with costs of at least \$1,000 and estimated useful lives exceeding one year are capitalized. Repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method based on an estimated useful life of five years for most assets. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the asset, which is currently six years.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

In-kind contributions:

In-kind contributions are reflected as contributions at estimated fair value at the date of donation and are reported as unrestricted support unless the donor has placed restrictions on how or when the donated assets may be used. Donated services are recognized if they create a non-financial asset or required specialized skills that would have been purchased by the Organization had they not been donated.

During the year ended December 31, 2018, the Organization received the donation of a residential building and land. A fair value for this property of \$475,000 was established using an appraisal of the property (Level 2). The property was sold during 2018 at a gain of \$177,566. The Organization benefited from in-kind donations of accounting fees, information technology, printing and human resources services of \$17,688 and \$23,720 for the years ended December 31, 2018 and 2017, respectively.

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 and supporting services benefited.

Advertising:

Advertising costs are recognized as an operating expense when incurred. There was no advertising expense for the year ended December 31, 2018. Advertising expense for the year ended December 31, 2017 was approximately \$1,000.

Federal income tax:

The Internal Revenue Service has determined the Organization to be exempt from federal income tax under Internal Revenue Code Section 501(c)(3); accordingly, no provision has been made for federal income tax in the accompanying financial statements.

The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred by the Organization as of the date of the financial statements and the amount can be reasonably estimated.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Use of estimates:

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

Reclassifications:

Certain balances from the prior period have been classified to conform to the current period presentation.

Subsequent events:

The Organization has evaluated subsequent events through November 27, 2019, the date which the financial statements were available to be issued.

Change in accounting principle:

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 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 classification, 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. The Organization has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

3. Liquidity and availability:

The Organization has liquid financial assets sufficient to cover at least 90 days of general expenditures. Financial assets in excess of daily cash requirements are primarily invested in mutual, exchange traded, and money market funds.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Liquidity and availability (continued):

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by the amounts that are not available to meet general expenditures within one year of the statement of financial position dates because of donor restrictions or internal board designations. The Organization receives contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Board of Directors has designated \$3,100 of net assets without donor restrictions to be set aside as Board Scholarship Fund as of December 31, 2018. These funds are to be used for staff and volunteer education and training. These funds may be reclassified as non-designated by an approved motion from the Board of Directors.

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash and cash equivalents	\$ 583,464	\$ 735,989
Investments	796,866	
Accounts receivables	<u>64,653</u>	<u>48,578</u>
 Total financial assets	 1,444,983	 784,567
 Donor restricted funds	 (176,389)	 (194,700)
Board designated funds	<u>(3,100)</u>	<u></u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 1,265,494</u>	 <u>\$ 589,867</u>

HOMEWARD PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Investments:

Investments consisted of the following as of December 31, 2018:

Money market funds	\$	601,877	
Mutual fund		188,728	
Domestic equity securities		<u>6,261</u>	
	\$	<u>796,866</u>	

5. Inventory:

Inventory consisted of the following:

	December 31,	
	<u>2018</u>	<u>2017</u>
Animal food	\$ 34,945	\$ 26,688
Clinic medicine and supplies	<u>17,864</u>	<u>16,224</u>
	<u>\$ 52,809</u>	<u>\$ 42,912</u>

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Leasehold improvements and equipment:

Leasehold improvements and equipment consisted of the following:

	December 31,	
	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 273,815	\$ 269,732
Transportation equipment	37,763	37,763
Animal kennels	60,640	60,640
Clinic and surgery equipment	29,963	27,901
Office furniture and equipment	<u>23,433</u>	<u>20,562</u>
	425,614	416,598
Less accumulated depreciation	<u>389,011</u>	<u>374,337</u>
	<u>\$ 36,603</u>	<u>\$ 42,261</u>

7. Volunteers:

The Organization is dependent on its volunteers who are important to the operations of the Organization. These types of contributed labor do not meet the provisions under accounting principles generally accepted in the United States of America to be recorded in the accompanying financial statements. Management believes over 114,000 hours and 67,000 hours were contributed by approximately 880 and 450 volunteers during the years ended December 31, 2018 and 2017, respectively.

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Note payable:

	<u>2018</u>	<u>2017</u>
Non-interest bearing note payable to a financial institution, payable in monthly installments of \$1,887; due in full June 2019.	\$ 15,093	\$ 37,741
Less current portion	<u>15,093</u>	<u>22,644</u>
	<u><u>\$</u></u>	<u><u>\$ 15,097</u></u>

The Company is subject to certain periodic financial reporting covenants of which it was in compliance as of December 31, 2018.

9. Operating leases:

The Organization leases its office and facilities space and certain equipment under operating lease agreements. The office and facilities space lease is payable monthly at \$9,146 and is subject to an annual increase of 5%. The Organization is also responsible for taxes, insurance, and utilities. The lease expires September 30, 2021. The equipment leases are payable monthly at rates between \$350 and \$428, and expire at various times through October 2022. Rental expense under non-cancelable operating leases was \$113,822 and \$110,018 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under non-cancelable operating leases for years ending December 31, are approximately:

2019	\$ 120,000
2020	126,000
2021	100,000
2022	<u>6,000</u>
	<u><u>\$ 352,000</u></u>

HOMeward PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Related party transactions:

The Organization has an agreement with a company that is owned by a person who was a board member through May 2018. The agreement provides discounted animal training services to the Organization which they may offer to customers who adopt animals. The Organization paid \$5,340 and \$12,240, for the years ended December 31, 2018 and 2017, respectively, to the related party for training services, and this amount is included in animal care on the statements of activities. Employee receivables of \$2,699 and \$326 are included in accounts receivable as of December 31, 2018 and 2017, respectively.

11. Net assets without donor restrictions:

Net assets without donor restrictions are available for the following purposes for the year ended:

	December 31,	
	<u>2018</u>	<u>2017</u>
Undesignated	\$ 1,323,703	\$ 638,259
Board designated operating reserves	<u>3,100</u>	<u> </u>
	<u>\$ 1,326,803</u>	<u>\$ 638,259</u>

Board-designated funds have been set aside by the Organization's governing body and are available to meet staff and volunteer development as needed.

HOMEWARD PET ADOPTION CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purposes for the year ended:

	December 31,	
	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Whoopi's Fund	\$ 76,843	\$ 107,926
Public Spay & Neuter	76,116	69,344
Behavior program	16,799	13,439
Kennels	996	1,491
Kitten Fund	5,129	
Pet food bank	506	2,500
	<u>\$ 176,389</u>	<u>\$ 194,700</u>