

CAT ADOPTION TEAM

Reviewed Financial Statements

For the Year Ended December 31, 2018



MCDONALD JACOBS

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors  
Cat Adoption Team

We have reviewed the accompanying financial statements of Cat Adoption Team (CAT or the Organization), a nonprofit corporation, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### *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.

### *Accountant's Responsibility*

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### *Accountant's Conclusion*

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

*Report on Summarized Comparative Information*

The prior year summarized comparative information has been derived from the Organization's 2017 financial statements and based on our report dated March 15, 2018, we were not aware of any material modifications that should have been made to the financial statements in order to be in accordance with accounting principles generally accepted in the United States of America.

*McDonald Jacobz, P.C.*

Portland, Oregon

April 15, 2019

CAT ADOPTION TEAM  
STATEMENT OF FINANCIAL POSITION  
December 31, 2018  
(With comparative totals for 2017)

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents	\$ 131,834	\$ 313,997
Pledges and accounts receivable	81,232	58,410
Prepaid expenses	17,904	15,229
Inventory	<u>81,273</u>	<u>84,092</u>
Total current assets	312,243	471,728
Investments	1,473,916	1,475,646
Deposits and other assets	27,604	25,015
Charitable remainder annuity trust	1,091,324	1,255,964
Beneficial interest in assets held by a foundation	2,059,431	2,273,124
Property and equipment, net	<u>1,846,002</u>	<u>1,754,770</u>
TOTAL ASSETS	<u>\$ 6,810,520</u>	<u>\$ 7,256,247</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 34,834	\$ 42,101
Accrued payroll and vacation	81,254	64,819
Note payable, current portion	<u>33,189</u>	<u>31,884</u>
Total current liabilities	149,277	138,804
Deferred rent	3,117	2,457
Note payable, less current portion	<u>495,525</u>	<u>528,391</u>
Total liabilities	<u>647,919</u>	<u>669,652</u>
Net Assets:		
Without donor restrictions:		
Undesignated	1,622,607	1,823,455
Net property and equipment	<u>1,317,288</u>	<u>1,194,495</u>
Total without donor restrictions	2,939,895	3,017,950
With donor restrictions	<u>3,222,706</u>	<u>3,568,645</u>
Total net assets	<u>6,162,601</u>	<u>6,586,595</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,810,520</u>	<u>\$ 7,256,247</u>

See independent accountant's review report and notes to financial statements.

**CAT ADOPTION TEAM**  
**STATEMENT OF ACTIVITIES**  
For the year ended December 31, 2018  
(With comparative totals for 2017)

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Support and revenue:</b>				
Contributions and grants	\$ 658,616	\$ 98,000	\$ 756,616	\$ 953,721
Special event revenue, net of direct costs of \$56,800 for 2018 and \$53,740 for 2017	152,136	-	152,136	121,807
Program service revenue	557,220	-	557,220	526,969
Donated materials and services	152,770	-	152,770	106,370
Retail sales, less cost of sales of \$80,702 for 2018 and \$69,686 for 2017	58,557	-	58,557	58,058
Interest and dividend income	36,125	-	36,125	22,347
Change in value of investments	(118,186)	-	(118,186)	64,063
Rental income, net of property taxes	66,130	-	66,130	88,523
Change in value of:				
Charitable remainder annuity trust	-	(99,162)	(99,162)	117,780
Beneficial interest in assets held by a foundation	-	(101,085)	(101,085)	247,325
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>243,692</u>	<u>(243,692)</u>	<u>-</u>	<u>-</u>
	<u>1,807,060</u>	<u>(345,939)</u>	<u>1,461,121</u>	<u>2,306,963</u>
<b>Thrift Store:</b>				
Sales of donated merchandise	244,673	-	244,673	216,527
Donated goods for thrift store	243,210	-	243,210	221,882
Less inventory sold	<u>(244,673)</u>	<u>-</u>	<u>(244,673)</u>	<u>(216,527)</u>
Net thrift store	<u>243,210</u>	<u>-</u>	<u>243,210</u>	<u>221,882</u>
Total support and revenue	<u>2,050,270</u>	<u>(345,939)</u>	<u>1,704,331</u>	<u>2,528,845</u>
<b>Expenses:</b>				
Animal services	1,627,360	-	1,627,360	1,457,518
Thrift store	205,569	-	205,569	185,074
Management and general	114,404	-	114,404	114,451
Fundraising	<u>180,992</u>	<u>-</u>	<u>180,992</u>	<u>163,847</u>
Total expenses	<u>2,128,325</u>	<u>-</u>	<u>2,128,325</u>	<u>1,920,890</u>
Change in net assets	(78,055)	(345,939)	(423,994)	607,955
<b>Net assets:</b>				
Beginning of year	<u>3,017,950</u>	<u>3,568,645</u>	<u>6,586,595</u>	<u>5,978,640</u>
End of year	<u>\$ 2,939,895</u>	<u>\$ 3,222,706</u>	<u>\$ 6,162,601</u>	<u>\$ 6,586,595</u>

See independent accountant's review report and notes to financial statements.

**CAT ADOPTION TEAM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended December 31, 2018

	<u>Animal Services</u>	<u>Thrift Store</u>	<u>Management and General</u>	<u>Fund - Raising</u>	<u>Total</u>
Salaries and related costs	\$ 1,057,289	\$ 129,880	\$ 61,235	\$ 108,036	\$ 1,356,440
Professional fees	43,677	409	34,935	3,920	82,941
Supplies	280,560	4,677	-	3,861	289,098
Medical services	16,138	-	-	-	16,138
Equipment and maintenance	28,624	4,091	-	-	32,715
Utilities and telephone	44,146	9,367	34	-	53,547
Printing, postage and shipping	10,584	873	-	37,202	48,659
Insurance	12,081	-	2,132	-	14,213
Meetings and trainings	33,520	39	-	951	34,510
Advertising, marketing and outreach	20,991	5,090	-	789	26,870
Depreciation	57,735	642	3,207	1,612	63,196
Interest expense	18,913	-	3,338	-	22,251
Rent	-	43,964	-	-	43,964
Other operating expenses	<u>3,102</u>	<u>6,537</u>	<u>27,637</u>	<u>81,421</u>	<u>118,697</u>
	1,627,360	205,569	132,518	237,792	2,203,239
Less property taxes reported with rental income	-	-	(18,114)	-	(18,114)
Less direct benefit costs of special event	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,800)</u>	<u>(56,800)</u>
Total expenses	<u>\$ 1,627,360</u>	<u>\$ 205,569</u>	<u>\$ 114,404</u>	<u>\$ 180,992</u>	<u>\$ 2,128,325</u>

See independent accountant's review report and notes to financial statements.

**CAT ADOPTION TEAM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended December 31, 2017

	<u>Animal Services</u>	<u>Thrift Store</u>	<u>Management and General</u>	<u>Fund - Raising</u>	<u>Total</u>
Salaries and related costs	\$ 945,342	\$ 109,138	\$ 58,103	\$ 94,076	\$ 1,206,659
Professional fees	39,879	431	37,558	2,235	80,103
Supplies	223,030	4,859	596	858	229,343
Medical services	19,021	-	-	-	19,021
Equipment and maintenance	25,303	745	-	54	26,102
Utilities and telephone	42,471	9,264	358	-	52,093
Printing, postage and shipping	15,732	976	-	34,948	51,656
Insurance	9,746	-	1,720	-	11,466
Meetings and trainings	15,374	89	-	497	15,960
Advertising, marketing and outreach	27,933	8,433	-	-	36,366
Depreciation	51,931	577	2,885	2,308	57,701
Interest expense	19,983	-	3,526	-	23,509
Rent	-	43,989	-	-	43,989
Other operating expenses	21,773	6,573	27,562	82,611	138,519
	<u>1,457,518</u>	<u>185,074</u>	<u>132,308</u>	<u>217,587</u>	<u>1,992,487</u>
Less property taxes reported with rental income	-	-	(17,857)	-	(17,857)
Less direct benefit costs of special event	-	-	-	(53,740)	(53,740)
Total expenses	<u>\$ 1,457,518</u>	<u>\$ 185,074</u>	<u>\$ 114,451</u>	<u>\$ 163,847</u>	<u>\$ 1,920,890</u>

See independent accountant's review report and notes to financial statements.

**CAT ADOPTION TEAM**  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2018  
(With comparative totals for 2017)

	2018	2017
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (423,994)	\$ 607,955
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	63,196	57,701
Change in value of investments	118,186	(64,063)
Change in value of charitable remainder annuity trust	99,162	(117,780)
Change in value of beneficial interest in assets held by a foundation	101,085	(247,325)
(Increase) decrease in:		
Pledges and accounts receivable	(22,822)	130,777
Prepaid expenses	(2,675)	(10,177)
Inventory	2,819	(5,755)
Other assets	(2,589)	(7,861)
Increase (decrease) in:		
Accounts payable and accrued expenses	(7,267)	4,016
Accrued payroll and vacation	16,435	6,841
Deferred rent	660	875
Net cash flows from operating activities	(57,804)	355,204
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(154,428)	(72,291)
Proceeds from the sale of investments	1,638,422	1,505,406
Purchase of investments	(1,754,878)	(1,790,544)
Distribution from charitable remainder annuity trust	65,478	-
Distribution from beneficial interest in assets	112,608	-
Net cash flows from investing activities	(92,798)	(357,429)
<b>Cash flows from financing activities:</b>		
Principal payments on note payable	(31,561)	(30,302)
Net cash flows from financing activities	(31,561)	(30,302)
Net change in cash and cash equivalents	(182,163)	(32,527)
Cash and cash equivalents - beginning of year	313,997	346,524
Cash and cash equivalents - end of year	\$ 131,834	\$ 313,997
<b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	\$ 22,251	\$ 23,509

See independent accountant's review report and notes to financial statements.

CAT ADOPTION TEAM  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Cat Adoption Team (CAT or the Organization) is an Oregon nonprofit organization established in 1998. CAT's mission is to save the lives of homeless, unwanted, sick, and injured cats and to work with the community to provide feline expertise and quality programs and services for people and cats.

CAT's revenue sources include donations, sponsorships, bequests and grants from individuals, business, and foundations; adoption and hospital fees; and retail and thrift store sales.

CAT operates the following programs:

**Shelter:** CAT is the Pacific Northwest's largest nonprofit feline-only shelter. Located in Sherwood, CAT's shelter can accommodate up to 200 cats and kittens. CAT focuses on taking in cats at high risk of euthanasia, with 88% of cats and kittens coming from other shelters through their Nine Lives Transfer Program. CAT offers enrichment, behavior modification, excellent veterinary care and a variety of housing options to meet the individual needs of the cats and kittens in its care.

**Adoption:** In 2018, CAT found homes for 3,333 cats and kittens from its shelter, offsite adoption centers and foster homes. Frequent promotions highlight cats who might otherwise require more time to find a home. Adoptable cats and kittens are available for viewing at [catadoptionteam.org](http://catadoptionteam.org), [PetFinder.com](http://PetFinder.com) and [AdoptAPet.com](http://AdoptAPet.com).

**Hospital:** With an onsite hospital and a professional veterinary team, CAT provides preventive care, dental care, and treatment for various illnesses and injuries. The hospital includes a surgical suite, x-ray and laboratory services, and isolation wards to care for cats with infectious diseases.

**Foster Care:** CAT's nationally recognized kitten foster program provides care for kittens too young for adoption and too vulnerable to be safely housed in the shelter. Foster homes are also used for short-term care and treatment of adult cats. In 2018, CAT's volunteer foster homes cared for 912 kittens and 72 adults (including 51 mother cats).

**Spay/Neuter:** In addition to ensuring that all shelter cats and kittens are spayed or neutered prior to adoption, CAT also provides low-cost spay/neuter services for cats whose owners are struggling financially. CAT participates in two such programs; Spay & Save (offered by several Animal Shelter Alliance of Portland partners) and the Oregon Spay/Neuter Fund. In 2018, CAT performed 2,319 surgeries through these programs.

See independent accountant's review report.

CAT ADOPTION TEAM  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2018

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Description of Organization, Continued

**CAT Helpline:** The CAT Helpline offers resources and advice to help cat owners and others who are struggling with a feline behavior or health problem or trying to re-home a cat. The goal is to help keep cats in their homes and out of shelters whenever possible.

**Thrift Store:** CAT operates a thrift store in the Raleigh Hills neighborhood of Portland; the proceeds from sales support CAT's operations. The Thrift Store also raises awareness about CAT, houses special needs cats available for adoption, and hosts and participates in community events to engage the public in CAT activities.

**Collaboration:** CAT is a founding partner of the Animal Shelter Alliance of Portland (ASAP), a coalition of shelters and veterinary organizations. Working together, ASAP partner shelters have increased the save rate for cats in the Portland metro from 46% to 94.7% since 2006. CAT also works with other public and private shelters and animal welfare organizations in Oregon, Washington and beyond.

**Food Bank:** The CAT food bank helps homebound cat owners by distributing cat food in partnership with Meals on Wheels programs and senior centers in three Washington County cities.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed 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-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

See independent accountant's review report.

CAT ADOPTION TEAM  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2018

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Cash and Cash Equivalents

CAT considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Pledges Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period CAT is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Bequests are recorded as revenue at the time CAT has an established right to the bequest and the proceeds are measurable.

Accounts Receivable

Accounts receivable are reported at the amount Management of the Organization (Management) expects to collect on balances outstanding at year-end. Management provides for estimated uncollectible amounts through a valuation allowance based on its assessment of the current status of individual accounts. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, Management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Inventory

Inventory, consisting of retail pet food and supplies, and thrift store merchandise, is reflected at the lower of cost for purchased items and estimated fair value for donated items, or net realizable value, determined on the first-in, first-out (FIFO) basis. Fair value for donated items is estimated to be the price that can be charged in the thrift store operated by the Organization.

Investments

Investments are carried at fair value. Donor-restricted investment income is reported as an increase in net assets with donor restrictions and classified according to the nature of the restriction.

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated fair value on the date received.

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

See independent accountant's review report.

CAT ADOPTION TEAM  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2018

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Income Tax Status

Cat Adoption Team is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. Based on certain tax law changes, the Organization may be subject to unrelated business income tax. Any provision for income taxes associated with these changes is estimated to be immaterial. The Organization has no other activities subject to unrelated business income tax. CAT is not a private foundation.

The Organization follows the provisions of FASB ASC Topic *Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated supplies used in program services totaled approximately \$146,500 and \$102,400 for the years ended December 31, 2018 and 2017, respectively. Donated goods for sale in the thrift store totaled approximately \$243,000 and \$222,000 for the years ended December 31, 2018 and 2017, respectively.

CAT recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services are recorded at their estimated fair value at the date of donation. Approximately \$6,300 of in-kind services related to fundraising and promotion were recorded for the year ended December 31, 2018 (approximately \$4,000 in 2017).

CAT has agreements with various organizations that provide adoption outreach centers for CAT's adoptable animals. These centers provide space, food, litter, and supplies for the animals at the centers. No amounts are recorded for these donations as it is not practical to estimate their value.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation, and utilities, which are allocated on a square footage basis, as well as salaries and related costs, professional services, office expenses, interest, insurance, and other costs, which are allocated on the basis of estimates of time and effort.

See independent accountant's review report.

CAT ADOPTION TEAM  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2018

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Advertising Costs

CAT uses advertising to promote its programs and services. Advertising costs are expensed as incurred and approximated \$24,600 and \$33,100 for the years ended December 31, 2018 and 2017, respectively.

Change in Accounting Principle

The Organization has implemented Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (the Update). The Update modified net asset classification and enhances disclosures regarding liquidity and availability of resources and functional expense reporting. The Update has been applied retrospectively to all periods presented.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires Management 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

CAT has evaluated all subsequent events through April 15, 2019, the date the financial statements were available to be issued.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Summarized Financial Information for 2017

The financial information as of December 31, 2017 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

See independent accountant's review report.

**CAT ADOPTION TEAM**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2018

**2. AVAILABILITY OF RESOURCES AND LIQUIDITY MANAGEMENT**

CAT regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, CAT considers all expenditures related to its primary operations to be general expenditures. It excludes financial assets with donor or other restrictions limiting their use.

Financial assets of the Organization consist of the following at December 31, 2018:

	Available for General <u>Expenditure</u>	With Donor Restrictions	Total Financial <u>Assets</u>
Cash and cash equivalents	\$ 59,883	\$ 71,951	\$ 131,834
Cash held in investment accounts	177,607	-	177,607
Pledges and accounts receivable	81,232	-	81,232
Investments convertible to cash in the next 12 months	<u>1,296,309</u>	<u>-</u>	<u>1,296,309</u>
Total financial assets at year-end	<u>\$ 1,615,031</u>	<u>\$ 71,951</u>	<u>\$ 1,686,982</u>

**3. PLEDGES AND ACCOUNTS RECEIVABLE**

Pledges and accounts receivable are unsecured and consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Pledges receivable within one year	\$ 78,850	\$ 54,188
Accounts receivable - program fees	<u>2,382</u>	<u>4,222</u>
Total pledges and accounts receivable	<u>\$ 81,232</u>	<u>\$ 58,410</u>

See independent accountant's review report.

**CAT ADOPTION TEAM**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2018

**4. INVENTORY**

Inventory consists of the following at December 31:

	2018	2017
Pet food and supplies	\$ 32,299	\$ 34,640
Thrift store goods	48,974	49,452
Total inventory	\$ 81,273	\$ 84,092

**5. INVESTMENTS**

Investments consists of the following at December 31:

	2018	2017
Cash equivalents	\$ 177,607	\$ 587,108
Certificate of deposit	101,464	-
Equity securities	76,265	588,422
Fixed income securities	447,722	275,983
Mutual and exchange traded funds	670,858	24,133
Total investments	\$ 1,473,916	\$ 1,475,646

The certificate of deposit earns interest at 1.9% per annum and matures March 8, 2019. The certificate was not renewed at maturity.

**6. CHARITABLE REMAINDER ANNUITY TRUST AND BENEFICIAL INTEREST IN ASSETS HELD BY A FOUNDATION**

Charitable Remainder Annuity Trust

The Organization is the beneficiary under a charitable remainder annuity trust (the Trust). The Trust provides for the payment of distributions to a designated beneficiary and five nonprofit organizations for the life of the beneficiary. At the end of the Trust's terms, a portion of the remaining assets are available and will be distributed to the Organization as stipulated by the grantor. The present value of the future benefits to be received by the Organization is recorded in the statement of activities as a contribution with donor restrictions at the time the amount is measureable. The Organization will receive 20% of the assets that remain in the Trust after the death of the life beneficiary. Distributions of 5% are made annually with \$24,000 paid to the designated beneficiary and the remaining amount paid equally to the five nonprofit beneficiaries. Utilizing a 3% discount rate and the beneficiary's projected life, the estimated fair value of the amount receivable under this agreement is \$1,091,324 and \$1,255,964 at December 31, 2018 and 2017, respectively.

See independent accountant's review report.

**CAT ADOPTION TEAM**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2018

**6. CHARITABLE REMAINDER ANNUITY TRUST AND BENEFICIAL INTEREST IN ASSETS HELD BY A FOUNDATION, Continued**

Beneficial Interest in Assets Held by a Foundation

The Organization is a beneficiary of a foundation created for the benefit of five charitable organizations. A portion of the assets of the foundation are distributed annually to the beneficiaries for the shorter of 50 years or until the assets are fully distributed. The asset recorded is determined by multiplying the total fair value of the foundation's assets by the Organization's percentage share. Any change to the value is reflected as a revaluation gain or loss in the current statement of activities. The beneficial interest in the assets of the foundation is classified as a net asset with donor restrictions. The estimated value of the Organization's interest in the assets held by the foundation is \$2,059,431 and \$2,273,124 at December 31, 2018 and 2017, respectively.

**7. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31:

	2018	2017
Land	\$ 600,000	\$ 600,000
Building and improvements	1,535,296	1,515,197
Furniture and equipment	390,059	255,730
	2,525,355	2,370,927
Less accumulated depreciation	679,353	616,157
Property and equipment, net	\$ 1,846,002	\$ 1,754,770

**8. NOTE PAYABLE**

The note payable is due to Bank of the West, secured by real estate and accrues interest at 4.02% per annum. Interest and principal payments of \$4,484 are due monthly, with a maturity date of June 2031.

The balances are as follows at December 31:

	2018	2017
Current portion	\$ 33,189	\$ 31,884
Long-term portion	495,525	528,391
Total note payable	\$ 528,714	\$ 560,275

See independent accountant's review report.

**CAT ADOPTION TEAM**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2018

**8. NOTE PAYABLE, Continued**

Maturities of the note payable are as follows:

Year ending December 31, 2019	\$ 33,189
2020	34,548
2021	35,963
2022	37,436
2023	38,969
Thereafter	<u>348,609</u>
	<u>\$ 528,714</u>

**9. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with expiring donor restrictions are restricted for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Fostering 4 Rock Stars training program	\$ 60,000	\$ -
LA Relo Program	10,000	-
Food bank	1,951	2,497
Transport vehicle	-	35,000
Transfer cats from Saving Grace	-	2,060
Charitable remainder annuity trust	1,091,324	1,255,964
Beneficial interest in assets held by a foundation	<u>2,059,431</u>	<u>2,273,124</u>
Total net assets with expiring donor restrictions	<u>\$ 3,222,706</u>	<u>\$ 3,568,645</u>

**10. RETIREMENT PLAN**

All part-time and full-time CAT employees are eligible to participate in the Organization's 403(b) retirement plan upon completing their 90-day introductory period. CAT does not match funds deposited into 403(b) accounts and, therefore, no retirement contribution expense is recognized in the accompanying financial statements.

See independent accountant's review report.

CAT ADOPTION TEAM  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2018

11. OPERATING LEASE COMMITMENTS

CAT leases retail space for its thrift store activities under a noncancelable operating lease through March 2022. Monthly rent under the lease is currently \$4,075 subject to annual increases up to \$4,300. The total lease is expensed over the term of the lease on a straight-line basis, with deferred rent totaling \$3,117 and \$2,457 at December 31, 2018 and 2017, respectively.

Lease expense of approximately \$44,000 was recognized for the years ended December 31, 2018 and 2017. Future minimum payments are as follows:

Year ending December 31, 2019	\$	49,600
2020		50,500
2021		51,400
2022		<u>12,900</u>
	\$	<u>164,400</u>

CAT leases its owned warehouse space to an unrelated party under a noncancelable operating lease with a five-year term through July 2021. The total lease is recognized over the term of the lease on a straight-line basis, with deferred rent income included in other assets totaling \$15,538 and \$12,574 at December 31, 2018 and 2017, respectively. Lease income totaled approximately \$84,000 and was recognized for the years ended December 31, 2018 and 2017. Future minimum rental income under the operating lease is as follows:

Year ending December 31, 2019	\$	85,700
2020		91,000
2021		<u>55,000</u>
	\$	<u>231,700</u>

12. CONCENTRATIONS OF CREDIT RISK

CAT maintains its cash balances in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. There were no uninsured balances at December 31, 2018, and there was approximately \$58,800 in excess of insured limits at December 31, 2017.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

See independent accountant's review report.

**CAT ADOPTION TEAM**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2018

**13. FAIR VALUE MEASUREMENTS**

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant Management judgment or estimation.

Fair values of assets measured on a recurring basis at December 31, 2018 and 2017 are as follows:

	Fair Value	Level 1	Level 2	Level 3
<b><u>December 31, 2018</u></b>				
Investments:				
Equity securities	\$ 76,265	\$ 76,265	\$ -	\$ -
Corporate bonds	447,722	-	447,722	-
Mutual and exchange traded funds	670,858	670,858	-	-
Charitable remainder annuity trust	1,091,324	-	-	1,091,324
Beneficial interest in assets held by a foundation	2,059,431	-	-	2,059,431
<b><u>December 31, 2017</u></b>				
Investments:				
Equity securities	\$ 588,422	\$ 588,422	\$ -	\$ -
Corporate bonds	275,983	-	275,983	-
Mutual and exchange traded funds	24,133	24,133	-	-
Charitable remainder annuity trust	1,255,964	-	-	1,255,964
Beneficial interest in assets held by a foundation	2,273,124	-	-	2,273,124

See independent accountant's review report.

CAT ADOPTION TEAM  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2018

13. FAIR VALUE MEASUREMENTS, Continued

Fair value of investments in equity securities, mutual and exchange funds is determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for investments in corporate bonds are provided by custodians and are based on pricing models that incorporate available trade, bid and other market information.

Fair value for the contribution receivable from charitable remainder trusts is determined using an income approach by calculating the present value of the future distributions to be received using published life expectancy tables and discount rate of 3%.

Fair value for the beneficial interest in assets held by a foundation is determined using an income approach by multiplying the total fair value of the trust's assets by the Organization's percentage share as stated in the foundation document.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	<u>2018</u>	<u>2017</u>
Charitable remainder annuity trust:		
Balance at beginning of year	\$ 1,255,964	\$ 1,138,184
Contribution received		-
Distributions to Cat Adoption Team	(65,478)	(65,478)
Change in value of split-interest agreement - with donor restrictions	<u>(99,162)</u>	<u>183,258</u>
Balance at end of year	<u>\$ 1,091,324</u>	<u>\$ 1,255,964</u>
Beneficial interest in assets held by a foundation:		
Balance at beginning of year	\$ 2,273,124	\$ 2,025,799
Distributions to Cat Adoption Team	(112,608)	(99,250)
Change in value of split-interest agreement - with donor restrictions	<u>(101,085)</u>	<u>346,575</u>
Balance at end of year	<u>\$ 2,059,431</u>	<u>\$ 2,273,124</u>

See independent accountant's review report.