

Pets In Need

Financial Statements

April 30, 2022
(With Comparative Totals for 2021)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pets In Need
Redwood City, California

Opinion

We have audited the accompanying financial statements of Pets In Need (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of April 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pets In Need as of April 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pets In Need and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pets In Need's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



An independent firm
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Global Network Limited

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pets In Need's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pets In Need's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Pets In Need (a California nonprofit corporation)'s 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

September 23, 2022

Pets In Need
Statement of Financial Position
April 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 352,236	\$ 207,230	\$ 559,466	\$ 1,587,832
Investments - non-endowment	6,635,590	-	6,635,590	5,737,425
Other receivables	168,072	-	168,072	62,154
Contributions and grants receivable	104,909	-	104,909	-
Prepaid expenses	12,477	-	12,477	-
Total current assets	7,273,284	207,230	7,480,514	7,387,411
Property and equipment, net	5,162,060	-	5,162,060	5,467,729
Other assets				
Restricted cash	123,178	-	123,178	123,178
Deposits	5,706	-	5,706	5,706
Investments - endowment	-	3,745,255	3,745,255	4,032,170
Total other assets	128,884	3,745,255	3,874,139	4,161,054
Total assets	\$ 12,564,228	\$ 3,952,485	\$ 16,516,713	\$ 17,016,194
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 42,017	\$ -	\$ 42,017	\$ 172,885
Accrued expenses	303,162	-	303,162	316,156
Note payable, current portion	704,324	-	704,324	40,625
Paycheck Protection Program refundable advance	-	-	-	456,400
Total current liabilities	1,049,503	-	1,049,503	986,066
Note payable, net of current portion	-	-	-	704,664
Total liabilities	1,049,503	-	1,049,503	1,690,730
Net assets				
Without donor restrictions				
Undesignated	1,858,372	-	1,858,372	1,392,408
Board designated	9,656,353	-	9,656,353	9,656,353
Total without donor restrictions	11,514,725	-	11,514,725	11,048,761
With donor restrictions				
Restricted for specified purpose	-	207,230	207,230	244,533
Subject to appropriation and spending policy	-	1,806,631	1,806,631	2,093,546
Held in perpetuity	-	1,938,624	1,938,624	1,938,624
Total with donor restrictions	-	3,952,485	3,952,485	4,276,703
Total net assets	11,514,725	3,952,485	15,467,210	15,325,464
Total liabilities and net assets	\$ 12,564,228	\$ 3,952,485	\$ 16,516,713	\$ 17,016,194

The accompanying notes are an integral part of these financial statements.

Pets In Need
Statement of Activities
For the Year Ended April 30, 2022
(With Comparative Totals for 2021)

	Without Donor <u>Restrictions</u>	With Donor Restrictions	2022 <u>Total</u>	2021 <u>Total</u>
Support and revenue				
Bequests	\$ 2,557,376	\$ -	\$ 2,557,376	\$ 1,779,808
Contributions	1,754,419	5,782	1,760,201	1,596,274
Animal care and other fees	931,943	-	931,943	846,516
Government grant	579,107	-	579,107	-
Forgiveness of Paycheck Protection Program loan	456,400	-	456,400	-
Adoption fees	145,211	-	145,211	190,640
Other revenue	139,550	-	139,550	29,081
In-kind contributions	83,333	-	83,333	-
Merchandise sales, net	1,993	-	1,993	4,542
Total support and revenue	<u>6,649,332</u>	<u>5,782</u>	<u>6,655,114</u>	<u>4,446,861</u>
Investment income (loss)				
Interest and dividends	127,058	91,589	218,647	170,054
Realized and unrealized gains (losses) on investments (net of investment expenses of \$26,062 in 2022 and \$17,954 in 2021)	<u>(587,848)</u>	<u>(378,426)</u>	<u>(966,274)</u>	<u>2,318,414</u>
Total investment income (loss)	<u>(460,790)</u>	<u>(286,837)</u>	<u>(747,627)</u>	<u>2,488,468</u>
Net assets released from restriction	<u>43,163</u>	<u>(43,163)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and investment income (loss)	<u>6,231,705</u>	<u>(324,218)</u>	<u>5,907,487</u>	<u>6,935,329</u>
Functional expenses				
Program services				
Adoptions	1,266,061	-	1,266,061	1,336,740
Animal care / rescue	1,532,618	-	1,532,618	1,942,625
Medical / emergency assistance	<u>1,779,886</u>	<u>-</u>	<u>1,779,886</u>	<u>2,808,703</u>
Total program services	<u>4,578,565</u>	<u>-</u>	<u>4,578,565</u>	<u>6,088,068</u>
Support services				
Management and general	368,194	-	368,194	279,844
Fundraising	<u>818,982</u>	<u>-</u>	<u>818,982</u>	<u>829,070</u>
Total support services	<u>1,187,176</u>	<u>-</u>	<u>1,187,176</u>	<u>1,108,914</u>
Total functional expenses	<u>5,765,741</u>	<u>-</u>	<u>5,765,741</u>	<u>7,196,982</u>
Change in net assets	465,964	(324,218)	141,746	(261,653)
Net assets, beginning of year	<u>11,048,761</u>	<u>4,276,703</u>	<u>15,325,464</u>	<u>15,587,117</u>
Net assets, end of year	<u>\$ 11,514,725</u>	<u>\$ 3,952,485</u>	<u>\$ 15,467,210</u>	<u>\$ 15,325,464</u>

The accompanying notes are an integral part of these financial statements.

Pets In Need
Statement of Functional Expenses
For the Year Ended April 30, 2022
(With Comparative Totals for 2021)

	Program Services			Support Services			2021 Total
	Adoptions	Animal Care / Rescue	Medical / Emergency Assistance	Total Program Services	Management and General	Fundraising	
Personnel expenses							
Salaries and wages	\$ 797,072	\$ 871,626	\$ 996,217	\$ 2,664,915	\$ 125,481	\$ 348,305	\$ 3,138,701
Salaries and wages, in-kind	3,333	2,500	2,500	8,333	66,667	8,333	83,333
Employee benefits	183,665	148,191	138,088	469,944	28,279	76,488	574,711
Payroll taxes	83,648	93,409	89,614	266,671	13,621	34,672	314,964
Workers compensation	8,013	21,804	22,302	52,119	220	1,241	53,580
Total personnel expenses	<u>1,075,731</u>	<u>1,137,530</u>	<u>1,248,721</u>	<u>3,461,982</u>	<u>234,268</u>	<u>469,039</u>	<u>4,165,289</u>
Other expenses							
Depreciation	60,481	114,242	114,242	288,965	19,703	30,241	338,909
Business expenses	39,031	59,671	62,406	161,108	52,706	98,648	312,462
Supplies - animal care	75	42,165	107,763	150,003	1,023	-	151,026
Contract services	-	-	-	-	37,532	110,891	148,423
Utilities and occupancy	20,901	53,678	39,837	114,416	4,768	10,735	129,919
Equipment rental and maintenance	22,457	58,147	30,352	110,956	1,483	9,818	122,257
Animal services	-	-	93,224	93,224	-	-	93,224
Assistance program	2,823	-	53,650	56,473	-	-	56,473
Printing and copying	-	-	390	390	-	44,486	44,876
Supplies - other	23,647	9,210	523	33,380	3,705	1,643	38,728
Telephone and internet	4,540	11,235	8,576	24,351	1,334	6,554	32,239
Postage and shipping	77	-	46	123	2,011	26,328	28,462
Supplies - feed	21	27,131	-	27,152	229	-	27,381
Interest	4,907	9,269	9,269	23,445	1,363	2,453	27,261
Insurance	4,261	8,049	8,457	20,767	1,850	2,131	24,748
Staff development	6,684	1,235	2,185	10,104	337	14	10,455
Advertising	-	-	-	-	1,743	4,699	6,442
Other	425	788	-	1,213	4,139	-	5,352
Fundraising events	-	-	-	-	-	1,302	1,302
Travel and meetings	-	268	245	513	-	-	513
Total other expenses	<u>190,330</u>	<u>395,088</u>	<u>531,165</u>	<u>1,116,583</u>	<u>133,926</u>	<u>349,943</u>	<u>1,600,452</u>
	<u>\$ 1,266,061</u>	<u>\$ 1,532,618</u>	<u>\$ 1,779,886</u>	<u>\$ 4,578,565</u>	<u>\$ 368,194</u>	<u>\$ 818,982</u>	<u>\$ 5,765,741</u>
Percentage of total	<u>22 %</u>	<u>27 %</u>	<u>31 %</u>	<u>80 %</u>	<u>6 %</u>	<u>14 %</u>	<u>100 %</u>

The accompanying notes are an integral part of these financial statements.

Pets In Need
Statement of Cash Flows
For the Year Ended April 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 141,746	\$ (261,653)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	338,909	312,936
Realized and unrealized (gains) losses on investments	966,274	(2,318,414)
Forgiveness of Paycheck Protection Program loan	(456,400)	-
Donated securities	(77,209)	-
Changes in operating assets and liabilities		
Other receivables	(105,917)	(3,007)
Contributions and grants receivable	(104,909)	-
Prepaid expenses	(12,477)	-
Deposits	-	(2,535)
Accounts payable	(130,868)	110,087
Accrued expenses	(12,994)	80,500
Net cash provided by (used in) operating activities	<u>546,155</u>	<u>(2,082,086)</u>
Cash flows from investing activities		
Purchase of property and equipment	(33,240)	(316,166)
Purchase of investments	(2,089,515)	(168,685)
Proceeds from the sale of investments	589,199	-
Net cash used in investing activities	<u>(1,533,556)</u>	<u>(484,851)</u>
Cash flows from financing activities		
Payment on note payable	(40,965)	(38,299)
Net cash used in financing activities	<u>(40,965)</u>	<u>(38,299)</u>
Net decrease in cash, cash equivalents and restricted cash	(1,028,366)	(2,605,236)
Cash, cash equivalents and restricted cash, beginning of year	<u>1,711,010</u>	<u>4,316,246</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 682,644</u>	<u>\$ 1,711,010</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 559,466	\$ 1,587,832
Restricted cash	<u>123,178</u>	<u>123,178</u>
	<u>\$ 682,644</u>	<u>\$ 1,711,010</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 27,261	\$ 29,928
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The accompanying notes are an integral part of these financial statements.

Pets In Need
Notes to Financial Statements
April 30, 2022
(With Comparative Totals for 2021)

1. NATURE OF OPERATIONS

Pets in Need (the "Organization") is a nonprofit public benefit corporation established in 1965 under the laws of California. The Organization is an animal shelter and adoption agency for dogs and cats and it serves the San Francisco Peninsula and surrounding San Francisco Bay Area communities. Contributions are received from private individuals, corporations and foundations.

The Organization operates two on-site animal shelters, one in Redwood City and one in Palo Alto for the purpose of finding homes for homeless dogs and cats.

Services at the Palo Alto shelter began during February 2019 as the Organization entered into a professional services agreement with the City of Palo Alto on January 17, 2019 to provide animal sheltering and veterinary care at the Palo Alto Animal Shelter.

Other programs of the Organization include a low-cost spay/neuter clinic, a free mobile spay/neuter program, obedience training opportunities for pet owners, humane education to the community and providing volunteer opportunities for a wide range of community participants.

- *Adoptions* - Visibility and service are the key components of adoption. The Organization maintains a shelter, open to the public, staffed with trained Adoption, and Animal Care Specialists who counsel the public about the responsibilities of pet ownership and assist them in selecting an appropriate pet for their lifestyle. In addition to word of mouth, the Organization promotes the adoptions by maintaining a professional and up-to-date website with available animals, highlighting adoptable animals on various social media channels, highlighting animals on local television and bringing adoptable animals to outreach events. The direct mail campaign, website and e-mail newsletter keeps donors informed of the work the Organization is doing to adopt animals.
- *Animal Care / Rescue* - Excellent care, quality medical services and good training are the key components of animal care. The Organization maintains a shelter where animals are cared for and trained by quality staff and volunteers. Most of the shelter guests are loving animals that have been rescued from public facilities where they were in danger of being killed. The Organization goes on rescue runs to public shelters to rescue cats and dogs in need of a second chance. Once back at the shelter, the animals are screened, given a basic medical exam by veterinary staff, vaccinated, dewormed and spayed or neutered. The Organization's canine trainer works with volunteers to train and enrich dogs to become more adoptable. The Organization's volunteers also work with cats to socialize them and find them suitable homes. If an animal becomes ill after it arrives at the Organization, a medical team goes to work to do everything they can to help the animal to a speedy recovery.

Pets In Need
Notes to Financial Statements
April 30, 2022
(With Comparative Totals for 2021)

1. NATURE OF OPERATIONS (continued)

- *Medical* - The Organization operates a low-cost spay/neuter clinic that is available to the pets of any California resident. The Organization believes that an aggressive spay/neuter program is a key component to preventing unwanted animals from entering public shelters and losing their lives. In addition to the in-house spay/neuter clinic, the Organization has a mobile spay/neuter van that is taken to low-income communities in order to provide free spay/neuter services to the pets of local residents.
- *Emergency Assistance Program* - In 2020, the Organization formed an Emergency Assistance Program ("EAP") in response to the coronavirus emergency pandemic that has affected economies and incomes across the world. As an emergency response program, the purpose of EAP was to provide temporary aid to those pet owners in the Organization's community facing financial hardship due to the coronavirus pandemic. The Organization aimed to prevent unnecessary owner surrenders to its partner shelters and the shelters in the community by providing funding for one-time veterinary care grants of up to \$1,500 per household and monthly food and essential supply orders of up to \$150 per month per household. The program extended from March 23, 2020, shortly after shelter in place orders took effect until it shut down any further funding on May 1, 2021. At over a year in operation, the program was privileged to serve over 1,000 households, originally targeting the six Bay Area counties involved in shelter in place, but ultimately extending to 12 counties in Northern California. EAP was also honored to expand the Organization's partnerships and reach of resources including partnerships with funding collaborators, referral partners, veterinary hospitals, and local food pantry partners with whom the Organization kept pantries stocked when donations stopped early in the pandemic. The foundation that was built for EAP has given the Organization the structural wherewithal to elevate Pets in Need's outreach efforts to the next level of supporting the local community following the program's end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, consistent with accounting principles generally accepted in the United States of America.

- *Net assets without donor restrictions* - net assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.

Pets In Need
Notes to Financial Statements
April 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions* - net assets subject to donor-imposed stipulations that may or may not be met by actions of the Organization and/or the passage of time and net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization has donor-restricted endowment funds held totaling \$1,938,624 in perpetuity as of April 30, 2022 and 2021. The income from earnings on these contributions is available to support activities of the Organization as designated by the donors.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Adoption of accounting standards update

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Organization adopted ASU 2020-07 with a date of the initial application of May 1, 2021, using the full retrospective method.

The adoption of ASU 2020-07 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has updated disclosures as necessary.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. The Organization is continuing to monitor and assess the effects of the COVID-19 pandemic on its operations, and is adjusting accordingly. However, the financial impact and duration cannot be reasonably estimated at this time.

Pets In Need
Notes to Financial Statements
April 30, 2022
(With Comparative Totals for 2021)

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 ("U.S. GAAP") requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and reported amounts of support, revenue and expenses during the reporting period. Accordingly, actual events and results could differ from those assumptions and estimates.

Cash and cash equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Organization places its cash and temporary cash investments with high credit quality institutions. Periodically, such investments may be in excess of federally insured limits.

Restricted cash

Restricted cash as of April 30, 2022 and 2021 amounted to \$123,178, as a compensating balance of at least 15% of the outstanding notes payable balance (see Note 6). This amount is included in noncurrent restricted cash in the accompanying statement of financial position.

Investments

Investments are stated at fair value. Investments received through gifts are initially recorded at estimated fair value at the date of donation. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are determined using the specific identification method.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date. The Organization has characterized the fair value of its assets, based on the priority of the inputs used to value the assets, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the asset.

Pets In Need
Notes to Financial Statements
April 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

Assets recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

- *Level 1* - These are assets or liabilities where values are based on unadjusted quoted prices for identical assets in an active market that the Organization has the ability to assess.
- *Level 2* - These are assets or liabilities where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investment.
- *Level 3* - These are assets or liabilities where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the assumptions of management about assumptions market participants would use in pricing the investments.

The Organization has no level 2 or 3 assets or liabilities as of April 30, 2022 and 2021.

Property and equipment

The Organization capitalizes all property and equipment with a cost greater than \$1,000 with estimated useful lives ranging from 5 to 39 years depending on the asset. Property and equipment is carried at cost or, if donated, at the estimated fair value on the date of the gift. Depreciation is computed on the straight-line basis over the estimated useful lives of related assets. Maintenance and repair costs are charged to expenses as incurred.

Donated goods and services

The Organization recognizes the value of donated goods at fair value. The Organization recognizes the fair value of donated services if the services meet the recognition criteria which include a) requiring specialized skills; b) provided by someone with those skills; and c) would have to be purchased if they were not donated.

For the year ended April 30, 2022, the Organization received donated services valued at \$83,333 from the interim executive director. The donated services were reported at fair value in the financial statements based on the estimated salary for a similar position. For the year ended April 30, 2021, the Organization did not receive any donated goods or services that met the recognition criteria to be reflected in the accompanying financial statements.

In addition, the Organization receives contributed services from volunteers. These services do not meet the recognition criteria. Accordingly, the value of these contributed services is not reflected in the accompanying financial statements. No donated services from volunteers were received for the years ended April 30, 2022 and 2021.

Pets In Need
Notes to Financial Statements
April 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Unrestricted contributions are recorded as revenue when received, or if pledged, when the donor makes an unconditional promise. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of receipt.

Restrictions on gifts of property or equipment or gifts restricted to the purchase of property or equipment are satisfied when the assets are placed in service.

Advertising costs

The Organization expenses advertising costs as incurred. Advertising costs for the years ended April 30, 2022 and 2021 totaled \$6,442 and \$90,431, respectively.

Functional expenses

Costs of providing the Organization's programs and activities have been summarized in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Organization uses relative payroll dollars or square feet occupied to allocate indirect costs.

Income tax

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under 23701(d) of the California Revenue Taxation Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 506(a)(2) of the Internal Revenue Code.

The Organization recognizes the effects of its income tax positions only if those positions are more likely than not of being sustained. The Organization has evaluated its tax positions and has concluded as of April 30, 2022 and 2021, that the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Pets In Need
Notes to Financial Statements
April 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended April 30, 2021 from which the summarized information was derived.

Reclassifications

Certain board designated net assets have been reclassified within the net assets without donor restrictions as of April 30, 2021. In addition, certain expenses in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events

The Organization has evaluated subsequent events through September 23, 2022, the date the financial statements were available to be issued. See Note 14 for any subsequent events.

3. INVESTMENTS

Investments consisted of the following:

	<u>2022</u>	<u>2021</u>
Investments - non-endowment	\$ 6,635,590	\$ 5,737,425
Investments - endowment	<u>3,745,255</u>	<u>4,032,170</u>
	<u>\$ 10,380,845</u>	<u>\$ 9,769,595</u>

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3. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of April 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 7,527,089	\$ -	\$ -	\$ 7,527,089
Bonds	<u>2,853,756</u>	<u>-</u>	<u>-</u>	<u>2,853,756</u>
	<u>\$ 10,380,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,380,845</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of April 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 6,917,442	\$ -	\$ -	\$ 6,917,442
Bonds	<u>2,852,153</u>	<u>-</u>	<u>-</u>	<u>2,852,153</u>
	<u>\$ 9,769,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,769,595</u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Building - shelter	\$ 6,956,380	\$ 6,956,380
Land	132,008	132,008
Furniture and equipment	570,101	536,860
Vehicles	<u>270,679</u>	<u>270,679</u>
	7,929,168	7,895,927
Accumulated depreciation	<u>(2,767,108)</u>	<u>(2,428,198)</u>
	<u>\$ 5,162,060</u>	<u>\$ 5,467,729</u>

Total depreciation expense amounted to \$338,909 and \$312,936 for the years ended April 30, 2022 and 2021, respectively.

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5. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	2022	2021
Accrued vacation	\$ 221,290	\$ 263,900
Accrued salaries and wages	62,730	51,650
Accrued employee benefits	18,128	606
Accrued expenses other	1,014	-
	\$ 303,162	\$ 316,156

6. NOTE PAYABLE

Note payable consisted of the following:

	2022	2021
Note payable to financial institution due in monthly installments of \$5,686 from June 3, 2016, with interest at 3.76% per annum. All remaining outstanding principle and interest was due on May 3, 2022, the maturity date.	\$ 704,324	\$ 745,289
Less current portion	(704,324)	(40,625)
	\$ -	\$ 704,664

The future maturities of the note payable are as follows:

<u>Year ending April 30,</u>	
2023	\$ <u>704,324</u>
	\$ <u><u>704,324</u></u>

The Organization is required to maintain compliance with certain financial covenants under the terms of the note payable agreement; the Organization was in compliance with covenants at April 30, 2022 and 2021. The note payable is secured by the Organization's real property.

The Organization is required to maintain cash held on deposit as a compensating balance for the note. The Organization maintains a balance at or above 15% of the loan balance. As of April 30, 2022 and 2021, \$123,178, is shown as restricted cash for this balance.

Interest expense totaled \$27,261 and \$29,928 for the years ended April 30, 2022 and 2021.

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6. NOTE PAYABLE (continued)

In May 2022, the note payable matured, and the Organization paid off the remaining principal balance and unpaid accrued interest (see Note 14).

7. PAYCHECK PROTECTION PROGRAM REFUNDABLE ADVANCE

On April 16, 2020, the Organization received loan proceeds of \$456,400 from a promissory note issued by Boston Private Bank & Trust Company, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration. The term on the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization recorded the loan as a component of current liabilities in the accompanying statement of financial position as of April 30, 2021.

In June 2021, the Organization received full forgiveness of outstanding balances related to the PPP loan from the SBA. As a result, the Organization eliminated the liability balance that was included in the accompanying statement of financial position as of April 30, 2021, and recognized income of \$456,400 in the accompanying statement of activities for the year ended April 30, 2022.

8. EMPLOYEE RETENTION CREDITS

Under the provisions of the CARES Act signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Organization was eligible for a refundable Employee Retention Credit ("ERC") subject to certain criteria. Two critical tests for eligibility exist - a partial or total government-ordered shutdown, or a decline in gross receipts. The decline in gross receipts test is based on a "significant" decline in gross receipts in quarters of 2020 (more than 50%) and 2021 (more than 20%) compared with the same quarters in 2019. The ERC is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. The ERC is equal to 70% of qualified wages paid to employees during calendar 2021 for a maximum credit of \$7,000 per employee for each calendar quarter through September 30, 2021.

During the year ended April 30, 2022, the Organization recognized ERCs of \$579,107 as a government grant on the accompanying statement of activities. The Organization has additional claims totaling approximately \$716,000 which have not been received and/or recognized in the financial statements because the conditions of the claims have not been overcome.

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9. RELATED PARTY TRANSACTIONS

Contributions were received from board members of the Organization. These contributions for the years ended April 30, 2022 and 2021 totaled \$25,084 and \$58,335, respectively.

10. NET ASSETS WITHOUT DONOR RESTRICTIONS

Board designated net assets consisted of the following:

	<u>2022</u>	<u>2021</u>
Operating reserve	\$ 500,000	\$ 500,000
Capital reserve	1,500,000	1,500,000
Endowment reserve	3,198,617	2,933,913
Property and equipment, net of related debt	<u>4,457,736</u>	<u>4,722,440</u>
	<u>\$ 9,656,353</u>	<u>\$ 9,656,353</u>

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Donor-restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	1,806,631	2,093,546
Assistance with pet medical bills for low income seniors	177,535	195,096
Second chance fund	<u>29,695</u>	<u>49,437</u>
	<u>\$ 3,952,485</u>	<u>\$ 4,276,703</u>

Net assets with donor restrictions released from restriction during the year were as follows:

	<u>2022</u>	<u>2021</u>
Assistance with pet medical bills for low income seniors	\$ 21,855	\$ 1,847
Second chance fund	<u>21,308</u>	<u>12,103</u>
	<u>\$ 43,163</u>	<u>\$ 13,950</u>

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12. ENDOWMENT

The Organization's endowment consists of two donor-restricted individual endowment funds, both of which were established to generate additional annual income to augment the Organization's operating budget primarily for the care of animals, and a board designated endowment fund. As required by U.S. GAAP net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Organization's Board of Directors has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Amounts are classified as net assets with donor restrictions until the Board of Directors appropriates amounts for expenditure and any purpose restrictions have been met, in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of April 30, 2022 and 2021.

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12. ENDOWMENT (continued)

Investment and spending policy

The Organization's investment manager is directed to follow an asset allocation strategy that will be consistent with the objectives set forth in the investment policy to include the following:

- Diversification that will include both common stock and fixed income investments; a) equity investments: diversification that will result in a portfolio of issues that represent a range of industry groups to spread investment risk over a broad base; b) fixed income investments: to include obligations of the U.S. Treasury, agencies of the U.S. government and at least 90% of corporate debt to be investment grade.
- Depending on the markets, the Organization's investment manager is given latitude as to the relationship of equities to fixed income holdings. As a guideline, the Board of Directors has set a benchmark allocation at 70% equity and 30% fixed income for the portfolio. In no case will investments in the portfolio exceed 75% in equities without the express written permission of the Board of Directors.

It is the policy of the Board of Directors to preserve the value of its endowment in real terms while providing funds to the Organization for operations. Annually, the Organization's Board of Directors may authorize the withdrawal of a portion of the Organization's endowment fund to support special projects and other organizational priorities that may not be included in the annual budget. The amount withdrawn annually may not exceed 4% of the endowment fund's value. The Organization did not appropriate any funds for the years ended April 30, 2022 and 2021.

Endowment composition

Endowment net asset composition by type of fund as of April 30 is as follows:

	2022	2021
Board designated quasi-endowment	\$ 3,198,617	\$ 2,933,913
Donor restricted endowment funds	1,938,624	1,938,624
Unappropriated endowment earnings	1,806,631	2,093,546
	\$ 6,943,872	\$ 6,966,083

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12. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended April 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, April 30, 2021	\$ 2,933,913	\$ 4,032,170	\$ 6,966,083
Investment returns			
Interest and dividends	-	91,511	91,511
Realized and unrealized losses on investments, net	-	(378,426)	(378,426)
Total investment return	-	(286,915)	(286,915)
Contributions	264,704	-	264,704
	<u>264,704</u>	<u>(286,915)</u>	<u>(22,211)</u>
Balance, April 30, 2022	<u>\$ 3,198,617</u>	<u>\$ 3,745,255</u>	<u>\$ 6,943,872</u>

Changes in endowment net assets for the fiscal year ended April 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, April 30, 2020	\$ 2,975,442	\$ 3,014,569	\$ 5,990,011
Investment returns			
Interest and dividends	-	65,793	65,793
Realized and unrealized gains on investments, net	-	951,808	951,808
Total investment return	-	1,017,601	1,017,601
Appropriation of net assets	(41,529)	-	(41,529)
	<u>(41,529)</u>	<u>1,017,601</u>	<u>976,072</u>
Balance, April 30, 2021	<u>\$ 2,933,913</u>	<u>\$ 4,032,170</u>	<u>\$ 6,966,083</u>

13. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations as they come due. To meet liquidity needs, the Organization has cash and cash equivalents, investments and other receivables available.

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13. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

Monthly, the Finance Committee reviews the Organization's financial position and discusses a reasonable cash position to maintain. Management and members of the Finance Committee have set 90 days of operating expenses in cash as the minimum for the year ending April 30, 2022.

The following is a quantitative disclosure which describes assets that are available within one year of April 30, 2022 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash, cash equivalents and restricted cash	\$ 682,644
Investments	10,380,845
Other receivables	168,072
Contributions and grants receivable	<u>104,909</u>
	<u>11,336,470</u>
Less: amounts unavailable for general expenditures within one year, due to:	
Held in perpetuity	(1,938,624)
Unappropriated endowment earnings	(1,806,631)
Board designated quasi-endowment	(3,198,617)
Purpose restricted projects	(207,230)
Compensating balance on note payable	<u>(123,178)</u>
	<u>(7,274,280)</u>
	<u>\$ 4,062,190</u>

Financial assets available to meet cash needs for general expenditures within one year at April 30, 2022 were \$4,062,190. In addition, the board designated quasi-endowment fund could be made available if needed.

The Organization has financial assets available at April 30, 2022 to cover approximately 240 days of operating expenses based on the Organization's operating budgets for the Redwood City and Palo Alto shelters for the year ending April 30, 2023.

14. SUBSEQUENT EVENT

In May 2022, the note payable matured, and the Organization paid off the remaining principal balance and unpaid accrued interest, totaling approximately \$705,000 (see Note 6).