

## **Pets In Need**

Financial Statements

April 30, 2020  
(With Comparative Totals for 2019)



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Pets In Need  
Palo Alto, California

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, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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.

### **Opinion**

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, 2020, 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.



An independent firm  
associated with Moore  
Global Network Limited

### **Change in Accounting Principle**

As described in Note 2 to the financial statements, the Organization has adopted ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective May 1, 2019. Our opinion is not modified with respect to that matter.

### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, 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 ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

### **Report on Summarized Comparative Information**

We have previously audited Pets In Need's 2019 financial statements, and our report dated September 20, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino<sup>LLP</sup>  
San Jose, California

October 27, 2020

Pets In Need  
Statement of Financial Position  
April 30, 2020  
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 4,193,068	\$ -	\$ 4,193,068	\$ 838,548
Investments - non-endowment	4,027,318	240,608	4,267,926	4,505,826
Other receivables	59,148	-	59,148	200
Total current assets	8,279,534	240,608	8,520,142	5,344,574
Property and equipment, net	5,464,499	-	5,464,499	5,142,982
Other assets				
Restricted cash	123,178	-	123,178	123,178
Deposits	3,171	-	3,171	3,171
Investments - endowment	-	3,014,569	3,014,569	2,800,351
Total other assets	126,349	3,014,569	3,140,918	2,926,700
Total assets	\$ 13,870,382	\$ 3,255,177	\$ 17,125,559	\$ 13,414,256
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable	\$ 62,798	\$ -	\$ 62,798	\$ 102,010
Accrued expenses	235,656	-	235,656	195,761
Note payable, current portion	39,107	-	39,107	37,567
Total current liabilities	337,561	-	337,561	335,338
Long-term liabilities				
Note payable, net of current portion	744,481	-	744,481	783,619
PPP refundable advance	456,400	-	456,400	-
Total long-term liabilities	1,200,881	-	1,200,881	783,619
Total liabilities	1,538,442	-	1,538,442	1,118,957
Net assets				
Without donor restrictions				
Undesignated	2,675,587	-	2,675,587	9,333,051
Board designated	9,656,353	-	9,656,353	-
With donor restrictions				
Restricted for specified purpose	-	240,608	240,608	161,897
Subject to appropriation and spending policy	-	1,075,945	1,075,945	861,727
Held in perpetuity	-	1,938,624	1,938,624	1,938,624
Total with donor restrictions	-	3,255,177	3,255,177	2,962,248
Total net assets	12,331,940	3,255,177	15,587,117	12,295,299
Total liabilities and net assets	\$ 13,870,382	\$ 3,255,177	\$ 17,125,559	\$ 13,414,256

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

Pets In Need  
Statement of Activities  
For the Year Ended April 30, 2020  
(With Comparative Totals for 2019)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Support and revenue				
Contributions	\$ 6,661,782	\$ 99,219	\$ 6,761,001	\$ 3,727,295
Animal care and other fees	951,246	-	951,246	352,000
Adoption fees	247,591	-	247,591	128,854
Other revenue	9,334	-	9,334	1,225
Special events	1,170	-	1,170	-
Merchandise sales, net	330	-	330	821
Total support and revenue	<u>7,871,453</u>	<u>99,219</u>	<u>7,970,672</u>	<u>4,210,195</u>
Investment income				
Interest and dividends	107,512	89,097	196,609	261,289
Realized and unrealized gains on investments (net of investment expenses of \$35,909 in 2020 and \$44,335 in 2019)	<u>183,774</u>	<u>117,156</u>	<u>300,930</u>	<u>161,835</u>
Total investment income	<u>291,286</u>	<u>206,253</u>	<u>497,539</u>	<u>423,124</u>
Net assets released from restriction	<u>12,543</u>	<u>(12,543)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and investment income	<u>8,175,282</u>	<u>292,929</u>	<u>8,468,211</u>	<u>4,633,319</u>
Functional expenses				
Program services				
Adoptions	1,251,700	-	1,251,700	775,010
Animal care / rescue	1,624,495	-	1,624,495	1,265,797
Medical	<u>1,619,082</u>	<u>-</u>	<u>1,619,082</u>	<u>1,246,303</u>
Total program services	<u>4,495,277</u>	<u>-</u>	<u>4,495,277</u>	<u>3,287,110</u>
Support services				
Management and general	151,980	-	151,980	266,221
Fundraising	<u>529,136</u>	<u>-</u>	<u>529,136</u>	<u>403,851</u>
Total support services	<u>681,116</u>	<u>-</u>	<u>681,116</u>	<u>670,072</u>
Total functional expenses	<u>5,176,393</u>	<u>-</u>	<u>5,176,393</u>	<u>3,957,182</u>
Change in net assets	2,998,889	292,929	3,291,818	676,137
Net assets, beginning of year	<u>9,333,051</u>	<u>2,962,248</u>	<u>12,295,299</u>	<u>11,619,162</u>
Net assets, end of year	<u>\$ 12,331,940</u>	<u>\$ 3,255,177</u>	<u>\$ 15,587,117</u>	<u>\$ 12,295,299</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, 2020  
(With Comparative Totals for 2019)

	Program Services				Support Services		2020 Total	2019 Total
	Adoptions	Animal Care / Rescue	Medical	Total Program Services	Management and General	Fundraising		
Personnel expenses								
Salaries and wages	\$ 712,394	\$ 916,215	\$ 760,459	\$ 2,389,068	\$ 81,517	\$ 196,397	\$ 2,666,982	\$ 1,811,148
Employee benefits	204,253	184,880	102,874	492,007	19,104	51,273	562,384	270,464
Payroll taxes	55,715	73,702	59,123	188,540	6,522	15,644	210,706	192,390
Workers compensation	9,893	22,579	18,290	50,762	290	703	51,755	34,382
Total personnel expenses	<u>982,255</u>	<u>1,197,376</u>	<u>940,746</u>	<u>3,120,377</u>	<u>107,433</u>	<u>264,017</u>	<u>3,491,827</u>	<u>2,308,384</u>
Other expenses								
Supplies - animal care	73,202	101,682	238,496	413,380	-	-	413,380	223,533
Animal services	4,346	1,070	259,475	264,891	-	6,094	270,985	171,370
Business expenses	40,075	43,256	36,425	119,756	11,663	98,848	230,267	199,021
Utilities and occupancy	21,534	112,083	44,061	177,678	5,669	11,000	194,347	196,066
Equipment rental and maintenance	16,871	40,682	12,429	69,982	1,687	17,321	88,990	65,121
Depreciation	12,989	24,534	24,534	62,057	3,608	6,493	72,158	392,289
Supplies - feed	4,872	51,776	-	56,648	-	-	56,648	41,680
Staff development	26,052	7,851	11,098	45,001	7,913	1,440	54,354	63,963
Supplies - other	43,590	5,879	-	49,469	2,102	2,558	54,129	66,508
Advertising	-	1,699	17,002	18,701	-	25,017	43,718	33,465
Printing and copying	317	-	-	317	-	32,605	32,922	26,238
Fundraising events	-	-	-	-	-	30,756	30,756	17,198
Interest	5,513	10,414	10,414	26,341	1,531	2,757	30,629	31,953
Insurance	4,813	9,092	9,188	23,093	4,058	2,407	29,558	20,256
Contract services	5,289	9,991	9,991	25,271	1,469	2,645	29,385	28,795
Telephone and internet	6,691	5,184	5,184	17,059	3,392	7,242	27,693	35,349
Postage and shipping	1,317	41	-	1,358	83	17,936	19,377	16,581
Travel and meetings	391	1,885	39	2,315	1,372	-	3,687	7,576
Other	1,583	-	-	1,583	-	-	1,583	11,836
Total other expenses	<u>269,445</u>	<u>427,119</u>	<u>678,336</u>	<u>1,374,900</u>	<u>44,547</u>	<u>265,119</u>	<u>1,684,566</u>	<u>1,648,798</u>
	<u>\$ 1,251,700</u>	<u>\$ 1,624,495</u>	<u>\$ 1,619,082</u>	<u>\$ 4,495,277</u>	<u>\$ 151,980</u>	<u>\$ 529,136</u>	<u>\$ 5,176,393</u>	<u>\$ 3,957,182</u>
Percentage of total	<u>24 %</u>	<u>32 %</u>	<u>31 %</u>	<u>87 %</u>	<u>3 %</u>	<u>10 %</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, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 3,291,818	\$ 676,137
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	72,158	392,289
Realized and unrealized gains on investments	(336,839)	(206,170)
Changes in operating assets and liabilities		
Other receivables	(58,948)	16,250
Inventory	-	6,798
Deposits	-	(2,535)
Accounts payable	(39,212)	37,600
Accrued expenses	<u>39,894</u>	<u>103,933</u>
Net cash provided by operating activities	<u>2,968,871</u>	<u>1,024,302</u>
Cash flows from investing activities		
Purchase of property and equipment	(393,675)	(164,708)
Purchase of investments	(2,471,429)	(779,418)
Proceeds from the sale of investments	<u>2,831,951</u>	<u>278,523</u>
Net cash used in investing activities	<u>(33,153)</u>	<u>(665,603)</u>
Cash flows from financing activities		
Payment on note payable	(37,598)	(36,274)
Proceeds from issuance of refundable advance (Payroll Protection Loan)	<u>456,400</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>418,802</u>	<u>(36,274)</u>
Net increase in cash, cash equivalents and restricted cash	3,354,520	322,425
Cash, cash equivalents and restricted cash, beginning of year	<u>961,726</u>	<u>639,301</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 4,316,246</u>	<u>\$ 961,726</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 4,193,068	\$ 838,548
Restricted cash	<u>123,178</u>	<u>123,178</u>
	<u>\$ 4,316,246</u>	<u>\$ 961,726</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 30,629	\$ 31,953

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



Pets In Need  
Notes to Financial Statements  
April 30, 2020  
(With Comparative Totals for 2019)

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, 2020  
(With Comparative Totals for 2019)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

- *Net assets without donor restrictions* - net assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- *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, 2020 and 2019. 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.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Management believes the standard improves the usefulness and understandability of the Organization's financial reporting. The adoption of this standard resulted in no significant changes in the way the Organization recognizes revenue.

Pets In Need  
Notes to Financial Statements  
April 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. However, the financial impact and duration cannot be reasonably estimated at this time.

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, 2020 and 2019 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.

Pets In Need  
Notes to Financial Statements  
April 30, 2020  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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, 2020, the Organization did not receive any donated goods or services that met the recognition criteria to be reflected in the accompanying financial statements. For the year ended April 30, 2019, the Organization received legal services valued at approximately \$149,000.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated goods and services (continued)

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. For the years ended April 30, 2020, the Organization received contributed services from volunteers valued at approximately \$160,000 and \$192,900, respectively.

Revenue recognition

In June 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which allows the deferral of the adoption of Accounting Standard Codification 606 for private entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020. The Organization adopted ASU 2020-05, and thus the revenue recognition is under Accounting Standard Codification 605.

The Organization recognizes support and revenue on the accrual basis of accounting. Revenue is recognized in the period in which the service is provided.

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, 2020 and 2019 totaled \$43,718 and \$33,465, 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and 2019, that the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

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, 2019 from which the summarized information was derived.

Subsequent events

The Organization has evaluated subsequent events through October 27, 2020, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.

3. INVESTMENTS

Investments consisted of the following:

	2020	2019
Equities	\$ 5,313,360	\$ 5,928,104
Bonds	1,969,135	1,378,073
	\$ 7,282,495	\$ 7,306,177

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Notes to Financial Statements  
April 30, 2020  
(With Comparative Totals for 2019)

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 5,313,360	\$ -	\$ -	\$ 5,313,360
Bonds	<u>1,969,135</u>	<u>-</u>	<u>-</u>	<u>1,969,135</u>
	<u>\$ 7,282,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,282,495</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of April 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 5,928,104	\$ -	\$ -	\$ 5,928,104
Bonds	<u>1,378,073</u>	<u>-</u>	<u>-</u>	<u>1,378,073</u>
	<u>\$ 7,306,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,306,177</u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Building - shelter	\$ 6,766,545	\$ 6,592,256
Land	132,008	132,008
Furniture and equipment	410,529	240,066
Vehicles	<u>270,679</u>	<u>221,759</u>
	7,579,761	7,186,089
Accumulated depreciation	<u>(2,115,262)</u>	<u>(2,043,107)</u>
	<u>\$ 5,464,499</u>	<u>\$ 5,142,982</u>

Total depreciation expense amounted to \$72,158 and \$392,289 for the years ended April 30, 2020 and 2019, respectively.

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5. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	2020	2019
Accrued salaries and wages	\$ 97,438	\$ 97,335
Accrued vacation	138,218	98,426
	\$ 235,656	\$ 195,761

6. NOTE PAYABLE

Note payable consisted of the following:

	2020	2019
Note payable to financial institution due in monthly installments of \$5,686 from June 3, 2016 through May 3, 2022, with interest at 3.76% per annum.	\$ 783,588	\$ 821,186
Less current portion	(39,107)	(37,567)
	\$ 744,481	\$ 783,619

The future maturities of the note payable are as follows:

Year ending April 30,	
2021	\$ 39,107
2022	40,625
2023	703,856
	\$ 783,588

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, 2020 and 2019. 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, 2020 and 2019, \$123,178, is shown as restricted cash for this balance.

Interest expense totaled \$30,629 and \$31,953 for the years ended April 30, 2020 and 2019.



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7. PPP 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 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 1.00%. 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 believes that it will likely qualify for full forgiveness, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided that the Organization will obtain forgiveness in whole or in part.

8. RELATED PARTY TRANSACTIONS

Contributions were received from board members of the Organization. These contributions for the years ended April 30, 2020 totaled \$46,000 and \$41,859, respectively.

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Board designated net assets consisted of the following:

	2020	2019
Operating reserve	\$ 500,000	\$ -
Capital reserve	1,500,000	-
Endowment reserve	7,656,353	-
	\$ 9,656,353	\$ -

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2020	2019
Donor restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	1,075,945	861,727
Assistance with pet medical bills for low income seniors	183,704	161,897
Second chance fund	56,904	-
	\$ 3,255,177	\$ 2,962,248

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10. NET ASSETS WITH DONOR RESTRICTIONS (continued)

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

	2020	2019
Assistance with pet medical bills for low income seniors	\$ 9,553	\$ 5,248
Second chance fund	2,990	-
	\$ 12,543	\$ 5,248

11. 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. 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.

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11. ENDOWMENT (continued)

Interpretation of relevant law (continued)

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, 2020 and 2019.

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.

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11. ENDOWMENT (continued)

Endowment composition

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

	2020	2019
Donor-restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	1,075,945	861,727
	\$ 3,014,569	\$ 2,800,351

Changes in endowment net assets for the fiscal year ended April 30, 2020 is as follows:

	With Donor Restrictions
Balance, April 30, 2019	\$ 2,800,351
Investment returns	
Interest and dividends	88,989
Realized and unrealized gains on investments	125,229
Balance, April 30, 2020	\$ 3,014,569

Changes in endowment net assets for the fiscal year ended April 30, 2019 is as follows:

	With Donor Restrictions
Balance, April 30, 2018	\$ 2,654,477
Investment returns	
Interest and dividends	70,494
Realized and unrealized gains on investments	75,380
Balance, April 30, 2019	\$ 2,800,351

12. 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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12. 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, 2020.

The following is a quantitative disclosure which describes assets that are available within one year of April 30, 2020 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents and restricted cash	\$ 4,316,246
Investments	7,282,495
Other receivables	<u>59,148</u>
	<u>11,657,889</u>
Less: amounts unavailable for general expenditures within one year, due to:	
Held in perpetuity	(1,938,624)
Unappropriated endowment earnings	(1,075,945)
Purpose restricted projects	(240,608)
Compensating balance on note payable	<u>(123,178)</u>
	<u>(3,378,355)</u>
	<u>\$ 8,279,534</u>

Financial assets available to meet cash needs for general expenditures within one year at April 30, 2020 were \$8,279,534.

The Organization has financial assets available at April 30, 2020 to cover approximately 533 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, 2021.