

Pets in Need

Financial Statements

April 30, 2019
(With Comparative Totals for 2018)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pets in Need
Redwood City, 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, 2019, 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, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Pets in Need's 2018 financial statements, and our report dated September 26, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Jose, California

September 20, 2019

Pets in Need
Statement of Financial Position
April 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 838,548	\$ -	\$ 838,548	\$ 510,682
Investments - non-endowment	4,343,929	161,897	4,505,826	3,944,635
Other receivables	200	-	200	16,450
Total current assets	5,182,677	161,897	5,344,574	4,471,767
Property and equipment, net	5,142,982	-	5,142,982	5,370,564
Other assets				
Restricted cash	123,178	-	123,178	128,619
Inventory	-	-	-	6,798
Deposits	3,171	-	3,171	636
Investments - endowment	-	2,800,351	2,800,351	2,654,477
Total other assets	126,349	2,800,351	2,926,700	2,790,530
Total assets	\$ 10,452,008	\$ 2,962,248	\$ 13,414,256	\$ 12,632,861
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 102,010	\$ -	\$ 102,010	\$ 64,410
Accrued expenses	195,761	-	195,761	91,829
Note payable, current portion	37,567	-	37,567	36,243
Total current liabilities	335,338	-	335,338	192,482
Note payable, net of current portion	783,619	-	783,619	821,217
Total liabilities	1,118,957	-	1,118,957	1,013,699
Net assets				
Without donor restrictions				
Undesignated	9,333,051	-	9,333,051	8,679,001
Board designated	-	-	-	133,775
Total without donor restrictions	9,333,051	-	9,333,051	8,812,776
With donor restrictions				
Restricted for specified purpose	-	161,897	161,897	151,909
Subject to appropriation and spending policy	-	861,727	861,727	715,853
Held in perpetuity	-	1,938,624	1,938,624	1,938,624
Total with donor restrictions	-	2,962,248	2,962,248	2,806,386
Total net assets	9,333,051	2,962,248	12,295,299	11,619,162
Total liabilities and net assets	\$ 10,452,008	\$ 2,962,248	\$ 13,414,256	\$ 12,632,861

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

Pets in Need
Statement of Activities
For the Year Ended April 30, 2019
(With Comparative Totals for 2018)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	2019 <u>Total</u>	2018 <u>Total</u>
Support and revenue				
Contributions	\$ 3,712,059	\$ 15,236	\$ 3,727,295	\$ 1,757,333
Animal care and other fees	352,000	-	352,000	121,857
Adoption fees	128,854	-	128,854	91,670
Other revenue	1,225	-	1,225	18
Merchandise sales, net	821	-	821	2,526
Special events	-	-	-	5,917
Total support and revenue	<u>4,194,959</u>	<u>15,236</u>	<u>4,210,195</u>	<u>1,979,321</u>
Investment income				
Interest and dividends	190,795	70,494	261,289	231,621
Realized and unrealized gains on investments (net of investment expenses of \$44,335 in 2019 and \$43,776 in 2018)	<u>86,455</u>	<u>75,380</u>	<u>161,835</u>	<u>281,340</u>
Total investment income	<u>277,250</u>	<u>145,874</u>	<u>423,124</u>	<u>512,961</u>
Net assets released from restriction	<u>5,248</u>	<u>(5,248)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and investment income	<u>4,477,457</u>	<u>155,862</u>	<u>4,633,319</u>	<u>2,492,282</u>
Functional expenses				
Program services				
Adoptions	775,010	-	775,010	498,030
Animal care / rescue	1,265,797	-	1,265,797	772,496
Medical	<u>1,246,303</u>	<u>-</u>	<u>1,246,303</u>	<u>758,030</u>
Total program services	<u>3,287,110</u>	<u>-</u>	<u>3,287,110</u>	<u>2,028,556</u>
Support services				
Management and general	266,221	-	266,221	135,547
Fundraising	<u>403,851</u>	<u>-</u>	<u>403,851</u>	<u>244,437</u>
Total support services	<u>670,072</u>	<u>-</u>	<u>670,072</u>	<u>379,984</u>
Total functional expenses	<u>3,957,182</u>	<u>-</u>	<u>3,957,182</u>	<u>2,408,540</u>
Change in net assets	520,275	155,862	676,137	83,742
Net assets, beginning of year	<u>8,812,776</u>	<u>2,806,386</u>	<u>11,619,162</u>	<u>11,535,420</u>
Net assets, end of year	<u>\$ 9,333,051</u>	<u>\$ 2,962,248</u>	<u>\$ 12,295,299</u>	<u>\$ 11,619,162</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, 2019
(With Comparative Totals for 2018)

	Program Services				Support Services		2019 Total	2018 Total
	Adoptions	Animal Care / Rescue	Medical	Total Program Services	Management and General	Fundraising		
Personnel expenses								
Salaries and wages	\$ 442,897	\$ 648,184	\$ 519,207	\$ 1,610,288	\$ 39,767	\$ 161,093	\$ 1,811,148	\$ 1,255,263
Employee benefits	87,121	88,575	62,036	237,732	3,858	28,874	270,464	193,400
Payroll taxes	51,924	71,260	51,824	175,008	3,776	13,606	192,390	111,648
Workers compensation	8,099	14,004	10,895	32,998	344	1,040	34,382	18,770
Total personnel expenses	<u>590,041</u>	<u>822,023</u>	<u>643,962</u>	<u>2,056,026</u>	<u>47,745</u>	<u>204,613</u>	<u>2,308,384</u>	<u>1,579,081</u>
Other expenses								
Depreciation	70,612	133,378	133,378	337,368	19,615	35,306	392,289	193,388
Supplies - animal care	4,175	69,671	149,687	223,533	-	-	223,533	100,606
Utilities and occupancy	16,220	97,493	68,683	182,396	4,350	9,320	196,066	91,795
Animal services	33	1,685	169,652	171,370	-	-	171,370	104,202
Supplies - other	35,188	14,634	7,158	56,980	5,620	3,908	66,508	26,925
Equipment rental and maintenance	7,019	29,477	18,589	55,085	2,093	7,943	65,121	52,290
Staff development	6,091	18,338	1,907	26,336	18,909	18,718	63,963	34,601
Business expenses	18,363	9,999	7,287	35,649	150,389	12,983	199,021	59,747
Supplies - feed	4,073	29,385	8,222	41,680	-	-	41,680	19,732
Telephone and internet	4,757	6,875	7,135	18,767	4,744	11,838	35,349	35,155
Advertising	-	-	3,821	3,821	505	29,139	33,465	4,993
Interest	5,752	10,864	10,864	27,480	1,598	2,875	31,953	33,364
Contract services	5,183	9,790	9,790	24,763	1,440	2,592	28,795	10,190
Printing and copying	1,306	172	-	1,478	-	24,760	26,238	25,660
Insurance	3,089	6,217	5,834	15,140	3,572	1,544	20,256	15,089
Postage and shipping	275	9	-	284	238	16,059	16,581	8,583
Fundraising events	933	-	109	1,042	499	15,657	17,198	3,297
Other	1,300	4,266	-	5,566	20	6,250	11,836	2,996
Travel and meetings	600	1,521	225	2,346	4,884	346	7,576	6,846
Total other expenses	<u>184,969</u>	<u>443,774</u>	<u>602,341</u>	<u>1,231,084</u>	<u>218,476</u>	<u>199,238</u>	<u>1,648,798</u>	<u>829,459</u>
	<u>\$ 775,010</u>	<u>\$ 1,265,797</u>	<u>\$ 1,246,303</u>	<u>\$ 3,287,110</u>	<u>\$ 266,221</u>	<u>\$ 403,851</u>	<u>\$ 3,957,182</u>	<u>\$ 2,408,540</u>
Percentage of total	<u>20.0 %</u>	<u>32.0 %</u>	<u>31.5 %</u>	<u>83.5 %</u>	<u>6.7 %</u>	<u>10.2 %</u>	<u>100.4 %</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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 676,137	\$ 83,742
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	392,289	193,388
Loss on disposal of property and equipment	-	5,475
Realized and unrealized gains on investments	(206,170)	(325,116)
Proceeds from sale of donated securities	-	25,120
Changes in operating assets and liabilities		
Other receivables	16,250	(4,309)
Prepaid expenses	-	431
Inventory	6,798	(2,662)
Deposits	(2,535)	155
Accounts payable	37,600	(26,714)
Accrued expenses	<u>103,933</u>	<u>(1,759)</u>
Net cash provided by (used in) operating activities	<u>1,024,302</u>	<u>(52,249)</u>
Cash flows from investing activities		
Purchase of property and equipment	(164,708)	(23,159)
Purchase of investments	(779,418)	(329,882)
Proceeds from the sale of investments	<u>278,523</u>	<u>22,536</u>
Net cash used in investing activities	<u>(665,603)</u>	<u>(330,505)</u>
Cash flows from financing activities		
Payment on note payable	<u>(36,274)</u>	<u>(34,862)</u>
Net cash used in financing activities	<u>(36,274)</u>	<u>(34,862)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	322,425	(417,616)
Cash, cash equivalents and restricted cash, beginning of year	<u>639,301</u>	<u>1,056,917</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 961,726</u>	<u>\$ 639,301</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 838,548	\$ 510,682
Restricted cash	<u>123,178</u>	<u>128,619</u>
	<u>\$ 961,726</u>	<u>\$ 639,301</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 31,953	\$ 33,364

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

Pets In Need
Notes to Financial Statements
April 30, 2019
(With Comparative Totals for 2018)

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. The Organization receives no support from government agencies. Instead, all 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 training 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, 2019
(With Comparative Totals for 2018)

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 they may or will 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, 2019 and 2018. 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 August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.

Pets In Need
Notes to Financial Statements
April 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
3. Reporting investment return net of external and direct internal investment expenses.

The amendments have been applied on a retrospective basis in 2019. The 2018 comparative information has been adjusted to apply the change in accounting principle for comparative purposes, with the option to omit the disclosures about liquidity and availability of resources for the prior year comparative period.

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 revenues 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, 2019 and 2018 amounted to \$123,178 and \$128,619, respectively, as a compensating balance of 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.

Pets In Need
Notes to Financial Statements
April 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Pets In Need
Notes to Financial Statements
April 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019, the Organization received legal services valued at approximately \$149,000. For the year ended April 30, 2018, 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. For the years ended April 30, 2019 and 2018, the Organization received contributed services from volunteers valued at approximately \$192,900 and \$165,800, respectively.

Revenue recognition

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, 2019 and 2018 totaled \$33,465 and \$4,993, respectively.

Pets In Need
Notes to Financial Statements
April 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019 and 2018, 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, 2018 from which the summarized information was derived.

Reclassifications

As required by ASU 2016-14, investment expenses totaling \$43,776 for the year ended April 30, 2018 have been reclassified from expenses and are instead net against investment income in the statement of activities. This reclassification has no effect on the previously reported net assets or change in net assets.

Subsequent events

The Organization has evaluated subsequent events through September 20, 2019, 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.

Pets In Need
Notes to Financial Statements
April 30, 2019
(With Comparative Totals for 2018)

3. INVESTMENTS

Investments consisted of the following:

	2019	2018
Equities	\$ 5,928,104	\$ 4,956,820
Bonds	1,378,073	1,642,292
	\$ 7,306,177	\$ 6,599,112

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

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

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of April 30, 2018:

	Level 1	Level 2	Level 3	Fair Value
Equities	\$ 4,956,820	\$ -	\$ -	\$ 4,956,820
Bonds	1,642,292	-	-	1,642,292
	\$ 6,599,112	\$ -	\$ -	\$ 6,599,112

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	2019	2018
Building - shelter	\$ 6,592,256	\$ 6,520,637
Vehicles	221,759	221,759
Furniture and equipment	240,066	146,978
Land	132,008	132,008
	7,186,089	7,021,382
Accumulated depreciation	(2,043,107)	(1,650,818)
	\$ 5,142,982	\$ 5,370,564

Pets In Need
Notes to Financial Statements
April 30, 2019
(With Comparative Totals for 2018)

4. PROPERTY AND EQUIPMENT, NET (continued)

Total depreciation expense amounted to \$392,289 and \$193,388 for the years ended April 30, 2019 and 2018, respectively.

5. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	2019	2018
Accrued salaries and wages	\$ 97,335	\$ 58,612
Accrued vacation	98,426	33,217
	\$ 195,761	\$ 91,829

6. NOTE PAYABLE

Note payable consisted of the following:

	2019	2018
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.	\$ 821,186	\$ 857,460
Less current portion	(37,567)	(36,243)
	\$ 783,619	\$ 821,217

The future maturities of the note payable are as follows:

Year ending April 30,		
2020	\$	37,567
2021		39,107
2022		40,625
2023		703,887
	\$	821,186

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, 2019 and 2018. The note payable is secured by the Organization's real property.

Pets In Need
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6. NOTE PAYABLE (continued)

The Organization is required to maintain cash held on deposit as a compensating balance for the note. The Organization maintains a balance equal to approximately 15% of the loan balance. As of April 30, 2019 and 2018, \$123,178 and \$128,619, respectively, is shown as restricted cash for this balance.

Interest expense totaled \$31,953 and \$33,364 for the years ended April 30, 2019 and 2018.

7. RELATED PARTY TRANSACTIONS

Contributions were received from board members of the Organization. These contributions for the years ended April 30, 2019 and 2018 totaled \$41,859 and \$50,850, respectively.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Donor restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	861,727	715,853
Assistance with pet medical bills for low income seniors	161,897	151,909
	\$ 2,962,248	\$ 2,806,386

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

	2019	2018
Assistance with pet medical bills for low income seniors	\$ 5,248	\$ 2,561
	\$ 5,248	\$ 2,561

9. 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.

Pets In Need
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9. ENDOWMENT (continued)

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, 2019 and 2018.

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.

Pets In Need
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9. ENDOWMENT (continued)

Investment and spending policy (continued)

- 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.

Endowment composition

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

	<u>2019</u>	<u>2018</u>
Donor-restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	<u>861,727</u>	<u>715,853</u>
	<u>\$ 2,800,351</u>	<u>\$ 2,654,477</u>

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

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

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9. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended April 30, 2018 is as follows:

	With Donor Restrictions
Balance, April 30, 2017	\$ 2,476,370
Investment returns	
Interest and dividends	66,932
Realized and unrealized gains on investments	111,175
Balance, April 30, 2018	\$ 2,654,477

10. 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.

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, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents and restricted cash	\$ 961,726
Investments	7,306,177
Other receivables	200
	8,268,103
Less: amounts unavailable for general expenditures within one year, due to:	
Held in perpetuity	(1,938,624)
Unappropriated endowment earnings	(861,727)
Compensating balance on note payable	(123,178)
Purpose restricted projects	(161,897)
	(3,085,426)
	\$ 5,182,677

Pets In Need
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10. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

Financial assets available to meet cash needs for general expenditures within one year at April 30, 2019 were \$5,182,677.

The Organization has financial assets available at April 30, 2019 to cover approximately 446 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, 2020.