

Pets In Need

Financial Statements

April 30, 2021
(With Comparative Totals for 2020)



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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, 2021, 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, 2021, 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 adopted Accounting Standards Update No. 2014-09 and related subsequent updates codified into Topic 606, *Revenue from Contracts with Customers*, effective May 1, 2020, using the full retrospective method. 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 2020 financial statements, and our report dated October 27, 2020 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

September 30, 2021

Pets In Need
Statement of Financial Position
April 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,587,832	\$ -	\$ 1,587,832	\$ 4,193,068
Investments - non-endowment	5,492,891	244,534	5,737,425	4,267,926
Other receivables	62,155	-	62,155	59,148
Total current assets	7,142,878	244,534	7,387,412	8,520,142
Property and equipment, net	5,467,729	-	5,467,729	5,464,499
Other assets				
Restricted cash	123,178	-	123,178	123,178
Deposits	5,706	-	5,706	3,171
Investments - endowment	-	4,032,169	4,032,169	3,014,569
Total other assets	128,884	4,032,169	4,161,053	3,140,918
Total assets	\$ 12,739,491	\$ 4,276,703	\$ 17,016,194	\$ 17,125,559
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 172,885	\$ -	\$ 172,885	\$ 62,798
Accrued expenses	316,156	-	316,156	235,656
Note payable, current portion	40,625	-	40,625	39,107
PPP refundable advance	456,400	-	456,400	456,400
Total current liabilities	986,066	-	986,066	793,961
Long-term liabilities				
Note payable, net of current portion	704,664	-	704,664	744,481
Total long-term liabilities	704,664	-	704,664	744,481
Total liabilities	1,690,730	-	1,690,730	1,538,442
Net assets				
Without donor restrictions				
Undesignated	1,392,408	-	1,392,408	2,675,587
Board designated	9,656,353	-	9,656,353	9,656,353
Total without donor restrictions	11,048,761	-	11,048,761	12,331,940
With donor restrictions				
Restricted for specified purpose	-	244,533	244,533	240,608
Subject to appropriation and spending policy	-	2,093,546	2,093,546	1,075,945
Held in perpetuity	-	1,938,624	1,938,624	1,938,624
Total with donor restrictions	-	4,276,703	4,276,703	3,255,177
Total net assets	11,048,761	4,276,703	15,325,464	15,587,117
Total liabilities and net assets	\$ 12,739,491	\$ 4,276,703	\$ 17,016,194	\$ 17,125,559

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

Pets In Need
Statement of Activities
For the Year Ended April 30, 2021
(With Comparative Totals for 2020)

	Without Donor <u>Restrictions</u>	With Donor Restrictions	2021 <u>Total</u>	2020 <u>Total</u>
Support and revenue				
Contributions	\$ 1,578,398	\$ 17,876	\$ 1,596,274	\$ 3,325,228
Bequests	1,779,808	-	1,779,808	3,435,773
Animal care and other fees	846,516	-	846,516	951,246
Adoption fees	190,640	-	190,640	247,591
Other revenue	29,081	-	29,081	9,334
Special events	-	-	-	1,170
Merchandise sales, net	<u>4,542</u>	<u>-</u>	<u>4,542</u>	<u>330</u>
Total support and revenue	<u>4,428,985</u>	<u>17,876</u>	<u>4,446,861</u>	<u>7,970,672</u>
Investment income				
Interest and dividends	104,262	65,792	170,054	196,609
Realized and unrealized gains on investments (net of investment expenses of \$17,954 in 2021 and \$35,909 in 2020)	<u>1,366,606</u>	<u>951,808</u>	<u>2,318,414</u>	<u>300,930</u>
Total investment income	<u>1,470,868</u>	<u>1,017,600</u>	<u>2,488,468</u>	<u>497,539</u>
Net assets released from restriction	<u>13,950</u>	<u>(13,950)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and investment income	<u>5,913,803</u>	<u>1,021,526</u>	<u>6,935,329</u>	<u>8,468,211</u>
Functional expenses				
Program services				
Adoptions	1,336,740	-	1,336,740	1,251,700
Animal care / rescue	1,942,625	-	1,942,625	1,624,495
Medical	<u>2,808,703</u>	<u>-</u>	<u>2,808,703</u>	<u>1,619,082</u>
Total program services	<u>6,088,068</u>	<u>-</u>	<u>6,088,068</u>	<u>4,495,277</u>
Support services				
Management and general	279,844	-	279,844	151,980
Fundraising	<u>829,070</u>	<u>-</u>	<u>829,070</u>	<u>529,136</u>
Total support services	<u>1,108,914</u>	<u>-</u>	<u>1,108,914</u>	<u>681,116</u>
Total functional expenses	<u>7,196,982</u>	<u>-</u>	<u>7,196,982</u>	<u>5,176,393</u>
Change in net assets	(1,283,179)	1,021,526	(261,653)	3,291,818
Net assets, beginning of year	<u>12,331,940</u>	<u>3,255,177</u>	<u>15,587,117</u>	<u>12,295,299</u>
Net assets, end of year	<u>\$ 11,048,761</u>	<u>\$ 4,276,703</u>	<u>\$ 15,325,464</u>	<u>\$ 15,587,117</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, 2021
(With Comparative Totals for 2020)

	Program Services			Support Services		2021 Total	2020 Total	
	Adoptions	Animal Care / Rescue	Medical	Total Program Services	Management and General			Fundraising
Personnel expenses								
Salaries and wages	\$ 829,980	\$ 1,116,091	\$ 1,001,418	\$ 2,947,489	\$ 153,269	\$ 364,329	\$ 3,465,087	\$ 2,666,982
Employee benefits	175,563	236,083	211,827	623,473	32,421	77,065	732,959	562,384
Payroll taxes	60,657	81,567	73,187	215,411	11,201	26,627	253,239	210,706
Workers compensation	14,213	19,113	17,149	50,475	2,625	6,240	59,340	51,755
Total personnel expenses	<u>1,080,413</u>	<u>1,452,854</u>	<u>1,303,581</u>	<u>3,836,848</u>	<u>199,516</u>	<u>474,261</u>	<u>4,510,625</u>	<u>3,491,827</u>
Other expenses								
Assistance program	19,900	-	729,426	749,326	-	-	749,326	-
Depreciation	56,329	106,398	106,398	269,125	15,647	28,164	312,936	72,158
Utilities and occupancy	43,733	121,175	107,378	272,286	11,818	22,534	306,638	194,347
Animal services	8,291	-	249,246	257,537	-	41,092	298,629	270,985
Supplies - animal care	2,220	92,267	201,827	296,314	-	-	296,314	413,380
Business expenses	38,190	37,294	31,399	106,883	6,137	115,578	228,598	230,267
Equipment rental and maintenance	31,568	25,362	24,949	81,879	2,149	15,927	99,955	88,990
Staff development	4,136	20,624	20,025	44,785	584	10,380	55,749	54,354
Printing and copying	-	-	-	-	-	54,304	54,304	32,922
Advertising	6,681	15,137	5,877	27,695	3,156	18,488	49,339	43,718
Supplies - other	27,846	6,138	-	33,984	2,985	5,305	42,274	54,129
Supplies - feed	-	36,843	-	36,843	-	-	36,843	56,648
Contract services	-	-	-	-	32,490	-	32,490	29,385
Insurance	5,955	10,428	10,628	27,011	1,561	2,761	31,333	29,558
Telephone and internet	5,409	7,554	7,554	20,517	2,085	8,215	30,817	27,693
Interest	5,387	10,176	10,175	25,738	1,496	2,694	29,928	30,629
Postage and shipping	192	-	90	282	220	27,339	27,841	19,377
Fundraising events	-	-	-	-	-	2,028	2,028	30,756
Other	490	375	150	1,015	-	-	1,015	1,583
Travel and meetings	-	-	-	-	-	-	-	3,687
Total other expenses	<u>256,327</u>	<u>489,771</u>	<u>1,505,122</u>	<u>2,251,220</u>	<u>80,328</u>	<u>354,809</u>	<u>2,686,357</u>	<u>1,684,566</u>
	<u>\$ 1,336,740</u>	<u>\$ 1,942,625</u>	<u>\$ 2,808,703</u>	<u>\$ 6,088,068</u>	<u>\$ 279,844</u>	<u>\$ 829,070</u>	<u>\$ 7,196,982</u>	<u>\$ 5,176,393</u>
Percentage of total	<u>18 %</u>	<u>27 %</u>	<u>39 %</u>	<u>84 %</u>	<u>4 %</u>	<u>12 %</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, 2021
(With Comparative Totals for 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ (261,653)	\$ 3,291,818
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	312,936	72,158
Realized and unrealized gains on investments	(2,336,368)	(336,839)
Changes in operating assets and liabilities		
Other receivables	(3,007)	(58,948)
Deposits	(2,535)	-
Accounts payable	110,087	(39,212)
Accrued expenses	80,500	39,894
PPP refundable advance	-	456,400
Net cash provided by (used in) operating activities	(2,100,040)	3,425,271
Cash flows from investing activities		
Purchase of property and equipment	(316,166)	(393,675)
Purchase of investments	(150,731)	(2,471,429)
Proceeds from the sale of investments	-	2,831,951
Net cash used in investing activities	(466,897)	(33,153)
Cash flows from financing activities		
Payment on note payable	(38,299)	(37,598)
Net cash used in financing activities	(38,299)	(37,598)
Net increase (decrease) in cash, cash equivalents and restricted cash	(2,605,236)	3,354,520
Cash, cash equivalents and restricted cash, beginning of year	4,316,246	961,726
Cash, cash equivalents and restricted cash, end of year	\$ 1,711,010	\$ 4,316,246
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,587,832	\$ 4,193,068
Restricted cash	123,178	123,178
	\$ 1,711,010	\$ 4,316,246

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 29,928	\$ 30,629
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The accompanying notes are an integral part of these financial statements.

Pets In Need
Notes to Financial Statements
April 30, 2021
(With Comparative Totals for 2020)

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, 2021
(With Comparative Totals for 2020)

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.

In 2020, the Organization formed 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

- *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, 2021 and 2020. The income from earnings on these contributions is available to support activities of the Organization as designated by the donors.

Pets In Need
Notes to Financial Statements
April 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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 new accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization adopted ASU 2014-09 with a date of the initial application of May 1, 2020, using the full retrospective method.

The adoption of ASU 2014-09 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The majority of the Organization's program revenue arrangements consist of a single performance obligation to transfer promised goods or services. Based on the Organization's evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenue as a result of the adoption of this standard.

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, 2021
(With Comparative Totals for 2020)

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, 2021 and 2020 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, 2021
(With Comparative Totals for 2020)

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, 2021 and 2020.

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 years ended April 30, 2021 and 2020, 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 year ended April 30, 2020, the Organization received contributed services from volunteers valued at approximately \$160,000. No donated services from volunteers were received for the year ended April 30, 2021.

Pets In Need
Notes to Financial Statements
April 30, 2021
(With Comparative Totals for 2020)

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, 2021 and 2020 totaled \$49,339 and \$43,718, 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, 2021 and 2020, 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, 2021
(With Comparative Totals for 2020)

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, 2020 from which the summarized information was derived.

Subsequent events

The Organization has evaluated subsequent events through September 30, 2021, the date the financial statements were available to be issued. See Note 13 for any subsequent events.

3. INVESTMENTS

Investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Investments - non-endowment	\$ 5,737,425	\$ 4,267,926
Investments - endowment	<u>4,032,169</u>	<u>3,014,569</u>
	<u>\$ 9,769,594</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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 6,917,441	\$ -	\$ -	\$ 6,917,441
Bonds	<u>2,852,153</u>	<u>-</u>	<u>-</u>	<u>2,852,153</u>
	<u>\$ 9,769,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,769,594</u>

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>

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4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	2021	2020
Building - shelter	\$ 6,956,380	\$ 6,766,545
Land	132,008	132,008
Furniture and equipment	536,860	410,529
Vehicles	270,679	270,679
	7,895,927	7,579,761
Accumulated depreciation	(2,428,198)	(2,115,262)
	\$ 5,467,729	\$ 5,464,499

Total depreciation expense amounted to \$312,936 and \$72,158 for the years ended April 30, 2021 and 2020, respectively.

5. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	2021	2020
Accrued salaries and wages	\$ 52,256	\$ 97,438
Accrued vacation	263,900	138,218
	\$ 316,156	\$ 235,656

6. NOTE PAYABLE

Note payable consisted of the following:

	2021	2020
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 is due on May 3, 2022, the maturity date.	\$ 745,289	\$ 783,588
Less current portion	(40,625)	(39,107)
	\$ 704,664	\$ 744,481

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6. NOTE PAYABLE (continued)

The future maturities of the note payable are as follows:

<u>Year ending April 30,</u>		
2022	\$	40,625
2023		<u>704,664</u>
	\$	<u><u>745,289</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, 2021 and 2020. 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, 2021 and 2020, \$123,178, is shown as restricted cash for this balance.

Interest expense totaled \$29,928 and \$30,629 for the years ended April 30, 2021 and 2020.

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%. 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 received approval of forgiveness in June 2021 (see Note 13).

8. RELATED PARTY TRANSACTIONS

Contributions were received from board members of the Organization. These contributions for the years ended April 30, 2021 and 2020 totaled \$58,335 and \$46,000, respectively.

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9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Board designated net assets consisted of the following:

	<u>2021</u>	<u>2020</u>
Operating reserve	\$ 500,000	\$ 500,000
Capital reserve	1,500,000	1,500,000
Endowment reserve	<u>7,656,353</u>	<u>7,656,353</u>
	<u>\$ 9,656,353</u>	<u>\$ 9,656,353</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2021</u>	<u>2020</u>
Donor-restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	2,093,546	1,075,945
Assistance with pet medical bills for low income seniors	195,096	183,704
Second chance fund	<u>49,437</u>	<u>56,904</u>
	<u>\$ 4,276,703</u>	<u>\$ 3,255,177</u>

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

	<u>2021</u>	<u>2020</u>
Second chance fund	\$ 12,103	\$ 2,990
Assistance with pet medical bills for low income seniors	<u>1,847</u>	<u>9,553</u>
	<u>\$ 13,950</u>	<u>\$ 12,543</u>

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.

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11. 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, 2021 and 2020.

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.

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11. 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. The Organization did not appropriate any funds for the years ended April 30, 2021 and 2020.

Endowment composition

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

	<u>2021</u>	<u>2020</u>
Donor restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	<u>2,093,545</u>	<u>1,075,945</u>
	<u>\$ 4,032,169</u>	<u>\$ 3,014,569</u>

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

	<u>With Donor Restrictions</u>
Balance, April 30, 2020	\$ 3,014,569
Investment returns	
Interest and dividends	65,792
Realized and unrealized gains on investments	<u>951,808</u>
Balance, April 30, 2021	<u>\$ 4,032,169</u>

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11. ENDOWMENT (continued)

Endowment composition (continued)

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

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.

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, 2021.

The following is a quantitative disclosure which describes assets that are available within one year of April 30, 2021 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents and restricted cash	\$ 1,711,010
Investments	9,769,594
Other receivables	62,155
	11,542,759
Less: amounts unavailable for general expenditures within one year, due to:	
Held in perpetuity	(1,938,624)
Unappropriated endowment earnings	(2,093,546)
Purpose restricted projects	(244,533)
Compensating balance on note payable	(123,178)
	(4,399,881)
	\$ 7,142,878

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12. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

Financial assets available to meet cash needs for general expenditures within one year at April 30, 2021 were \$7,142,878.

The Organization has financial assets available at April 30, 2021 to cover approximately 456 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, 2022.

13. SUBSEQUENT EVENT

In June 2021, the Organization received a Notice of Paycheck Protection Program Forgiveness Payment issued by the Small Business Administration, and the entire PPP refundable advance of \$456,400 was forgiven.