

Pets In Need

Financial Statements

April 30, 2018
(With Comparative Totals for 2017)



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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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2018, 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.

Report on Summarized Comparative Information

The financial statements of Pets In Need as of April 30, 2017, were audited by other auditors whose report dated October 4, 2017, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

September 26, 2018

Pets In Need
Statement of Financial Position
April 30, 2018
(With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 510,682	\$ -	\$ -	\$ 510,682	\$ 923,142
Investments - non-endowment	3,792,726	151,909	-	3,944,635	3,515,400
Other receivables	16,450	-	-	16,450	12,141
Prepaid expenses	-	-	-	-	431
Total current assets	<u>4,319,858</u>	<u>151,909</u>	<u>-</u>	<u>4,471,767</u>	<u>4,451,114</u>
Property and equipment, net	<u>5,370,564</u>	<u>-</u>	<u>-</u>	<u>5,370,564</u>	<u>5,546,268</u>
Other assets					
Restricted cash	128,619	-	-	128,619	133,775
Investments - endowment	-	715,853	1,938,624	2,654,477	2,476,370
Inventory	6,798	-	-	6,798	4,136
Deposits	<u>636</u>	<u>-</u>	<u>-</u>	<u>636</u>	<u>790</u>
Total other assets	<u>136,053</u>	<u>715,853</u>	<u>1,938,624</u>	<u>2,790,530</u>	<u>2,615,071</u>
Total assets	<u>\$ 9,826,475</u>	<u>\$ 867,762</u>	<u>\$ 1,938,624</u>	<u>\$ 12,632,861</u>	<u>\$ 12,612,453</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 64,410	\$ -	\$ -	\$ 64,410	\$ 91,123
Accrued expenses	91,829	-	-	91,829	93,588
Notes payable, current portion	<u>36,243</u>	<u>-</u>	<u>-</u>	<u>36,243</u>	<u>35,298</u>
Total current liabilities	192,482	-	-	192,482	220,009
Notes payable, net of current portion	<u>821,217</u>	<u>-</u>	<u>-</u>	<u>821,217</u>	<u>857,024</u>
Total liabilities	<u>1,013,699</u>	<u>-</u>	<u>-</u>	<u>1,013,699</u>	<u>1,077,033</u>
Net assets					
Unrestricted					
Undesignated	8,679,001	-	-	8,679,001	8,830,172
Board designated	<u>133,775</u>	<u>-</u>	<u>-</u>	<u>133,775</u>	<u>133,775</u>
Total unrestricted	8,812,776	-	-	8,812,776	8,963,947
Temporarily restricted	-	867,762	-	867,762	632,849
Permanently restricted	<u>-</u>	<u>-</u>	<u>1,938,624</u>	<u>1,938,624</u>	<u>1,938,624</u>
Total net assets	<u>8,812,776</u>	<u>867,762</u>	<u>1,938,624</u>	<u>11,619,162</u>	<u>11,535,420</u>
Total liabilities and net assets	<u>\$ 9,826,475</u>	<u>\$ 867,762</u>	<u>\$ 1,938,624</u>	<u>\$ 12,632,861</u>	<u>\$ 12,612,453</u>

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

Pets In Need
Statement of Activities
For the Year Ended April 30, 2018
(With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Support and revenue					
Contributions	\$ 1,706,733	\$ 50,600	\$ -	\$ 1,757,333	\$ 2,574,861
Animal care and other fees	121,857	-	-	121,857	62,052
Adoption fees	91,670	-	-	91,670	83,308
Special events	5,917	-	-	5,917	31,901
Merchandise sales, net	2,526	-	-	2,526	275
Other revenue	<u>18</u>	<u>-</u>	<u>-</u>	<u>18</u>	<u>11,382</u>
Total support and revenue	<u>1,928,721</u>	<u>50,600</u>	<u>-</u>	<u>1,979,321</u>	<u>2,763,779</u>
Investment income					
Interest and dividends	162,154	69,467	-	231,621	147,779
Realized and unrealized gains on investments	<u>207,709</u>	<u>117,407</u>	<u>-</u>	<u>325,116</u>	<u>474,645</u>
Total investment income	<u>369,863</u>	<u>186,874</u>	<u>-</u>	<u>556,737</u>	<u>622,424</u>
Net assets released from restriction	<u>2,561</u>	<u>(2,561)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue and investment income	<u>2,301,145</u>	<u>234,913</u>	<u>-</u>	<u>2,536,058</u>	<u>3,386,203</u>
Functional expenses					
Program services					
Adoptions	498,030	-	-	498,030	334,726
Animal care / rescue	772,496	-	-	772,496	729,778
Medical	<u>758,030</u>	<u>-</u>	<u>-</u>	<u>758,030</u>	<u>656,061</u>
Total program services	<u>2,028,556</u>	<u>-</u>	<u>-</u>	<u>2,028,556</u>	<u>1,720,565</u>
Support services					
Management and general	179,323	-	-	179,323	240,166
Fundraising	<u>244,437</u>	<u>-</u>	<u>-</u>	<u>244,437</u>	<u>177,880</u>
Total support services	<u>423,760</u>	<u>-</u>	<u>-</u>	<u>423,760</u>	<u>418,046</u>
Total functional expenses	<u>2,452,316</u>	<u>-</u>	<u>-</u>	<u>2,452,316</u>	<u>2,138,611</u>
Change in net assets	(151,171)	234,913	-	83,742	1,247,592
Net assets, beginning of year	<u>8,963,947</u>	<u>632,849</u>	<u>1,938,624</u>	<u>11,535,420</u>	<u>10,287,828</u>
Net assets, end of year	<u>\$ 8,812,776</u>	<u>\$ 867,762</u>	<u>\$ 1,938,624</u>	<u>\$ 11,619,162</u>	<u>\$ 11,535,420</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, 2018
(With Comparative Totals for 2017)

	Program Services			Support Services			2018 Total	2017 Total
	Adoptions	Animal Care / Rescue	Medical	Total Program Services	Management and General	Fundraising		
Personnel expenses								
Salaries and wages	\$ 299,740	\$ 419,820	\$ 347,778	\$ 1,067,338	\$ 65,087	\$ 122,838	\$ 1,255,263	\$ 1,080,044
Employee benefits	43,726	55,964	72,210	171,900	17,665	3,835	193,400	162,768
Payroll taxes	32,709	35,317	27,279	95,305	5,111	11,232	111,648	86,289
Workers compensation	3,579	7,158	5,651	16,388	876	1,506	18,770	19,816
Total personnel expenses	<u>379,754</u>	<u>518,259</u>	<u>452,918</u>	<u>1,350,931</u>	<u>88,739</u>	<u>139,411</u>	<u>1,579,081</u>	<u>1,348,917</u>
Other expenses								
Depreciation	36,743	73,485	58,020	168,248	9,669	15,471	193,388	176,680
Business expenses	21,486	15,811	14,668	51,965	37,981	13,577	103,523	101,018
Supplies - animal care	5,778	25,914	68,914	100,606	-	-	100,606	88,546
Animal services	-	-	100,602	100,602	-	-	100,602	83,892
Utilities and occupancy	12,725	50,288	19,563	82,576	4,108	5,111	91,795	113,219
Equipment rental and maintenance	8,344	32,640	10,163	51,147	-	1,143	52,290	33,304
Telephone and internet	5,686	7,733	6,105	19,524	3,700	11,931	35,155	15,013
Staff development	6,889	5,280	4,968	17,137	11,312	6,152	34,601	19,294
Interest	6,339	12,678	10,010	29,027	1,668	2,669	33,364	34,718
Supplies - other	9,948	8,092	1,227	19,267	3,690	3,968	26,925	17,154
Printing and copying	676	-	-	676	-	24,984	25,660	16,351
Supplies - feed	479	15,648	3,605	19,732	-	-	19,732	19,215
Insurance	2,022	4,864	3,521	10,407	3,778	904	15,089	13,311
Contract services	-	-	-	-	10,190	-	10,190	16,995
Postage and shipping	30	272	66	368	147	8,068	8,583	9,557
Other	600	396	3,600	4,596	-	2,195	6,791	16,920
Travel and meetings	522	1,136	80	1,738	4,181	732	6,651	5,757
Advertising	-	-	-	-	10	4,983	4,993	8,531
Fundraising events	9	-	-	9	150	3,138	3,297	219
Total other expenses	<u>118,276</u>	<u>254,237</u>	<u>305,112</u>	<u>677,625</u>	<u>90,584</u>	<u>105,026</u>	<u>873,235</u>	<u>789,694</u>
	<u>\$ 498,030</u>	<u>\$ 772,496</u>	<u>\$ 758,030</u>	<u>\$ 2,028,556</u>	<u>\$ 179,323</u>	<u>\$ 244,437</u>	<u>\$ 2,452,316</u>	<u>\$ 2,138,611</u>
Percentage of total	<u>20 %</u>	<u>32 %</u>	<u>31 %</u>	<u>83 %</u>	<u>7 %</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, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 83,742	\$ 1,247,592
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	193,388	176,680
Loss on disposal of property and equipment	5,475	-
Realized and unrealized gains on investments	(325,116)	(474,645)
Proceeds from sale of donated securities	25,120	-
Changes in operating assets and liabilities		
Other receivables	(4,309)	846
Prepaid expenses	431	(431)
Inventory	(2,662)	(4,136)
Deposits	155	75
Accounts payable	(26,714)	63,770
Accrued expenses	(1,759)	30,636
Net cash provided by (used in) operating activities	<u>(52,249)</u>	<u>1,040,387</u>
Cash flows from investing activities		
Purchase of property and equipment	(23,159)	(121,985)
Purchase of investments	(329,882)	(937,149)
Proceeds from the sale of investments	22,536	590,290
Net cash used in investing activities	<u>(330,505)</u>	<u>(468,844)</u>
Cash flows from financing activities		
Payments on notes payable	(34,862)	(33,509)
Payments on capital leases	-	(3,002)
Net cash used in financing activities	<u>(34,862)</u>	<u>(36,511)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(417,616)	535,032
Cash, cash equivalents and restricted cash, beginning of year	<u>1,056,917</u>	<u>521,885</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 639,301</u>	<u>\$ 1,056,917</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 510,682	\$ 923,142
Restricted cash	<u>128,619</u>	<u>133,775</u>
	<u>\$ 639,301</u>	<u>\$ 1,056,917</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 33,364	\$ 34,807
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The accompanying notes are an integral part of these financial statements.

Pets In Need
Notes to Financial Statements
April 30, 2018

1. NATURE OF OPERATIONS

Pets in Need (the "Organization") is a nonprofit public benefit corporation established in 1967 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 an on-site animal shelter for the purpose of finding homes for homeless dogs and cats. 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.
- *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.

Pets In Need
Notes to Financial Statements
April 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net assets and changes therein are classified as follows:

- *Unrestricted net assets* - net assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- *Temporarily restricted net assets* - net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization has \$1,938,624 of permanently restricted net assets as of April 30, 2018. The income from these contributions is available to support activities of the Organization as designated by the donors.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (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.

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.

Pets In Need
Notes to Financial Statements
April 30, 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, 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 year ended April 30, 2018, the Organization received contributed services from volunteers valued at approximately \$165,800.

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, 2018 amounted to \$128,619, 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.

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, 2018

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.

Property and equipment

The Organization capitalizes all property and equipment with a cost greater than \$1,000. 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.

Income taxes

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 position and has concluded as of April 30, 2018, that the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Advertising costs

The Organization expenses advertising costs as incurred. Advertising costs for the year ended April 30, 2018 totaled \$4,993.

Pets In Need
Notes to Financial Statements
April 30, 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.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent events

The Organization has evaluated subsequent events through September 26, 2018, 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.

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, 2017 from which the summarized information was derived.

Reclassifications

Unrestricted net assets totaling \$295,200 have been reclassified to permanently restricted net assets as of April 30, 2017 based on management's review of its endowment funds activity from their inception. This reclassification has no effect on previously reported total net assets.

Pets In Need
Notes to Financial Statements
April 30, 2018

3. INVESTMENTS

Investments consist of the following:

Equities	\$ 4,956,820
Bonds	<u>1,642,292</u>
	<u><u>\$ 6,599,112</u></u>

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	<u>1,642,292</u>	<u>-</u>	<u>-</u>	<u>1,642,292</u>
	<u><u>\$ 6,599,112</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,599,112</u></u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Building - shelter	\$ 6,520,637
Vehicles	221,759
Furniture and equipment	146,978
Land	<u>132,008</u>
	7,021,382
Accumulated depreciation	<u>(1,650,818)</u>
	<u><u>\$ 5,370,564</u></u>

Total depreciation expense amounted to \$193,388 for the year ended April 30, 2018.

5. ACCRUED EXPENSES

Accrued expenses consist of the following:

Accrued salaries and wages	\$ 58,612
Accrued vacation	<u>33,217</u>
	<u><u>\$ 91,829</u></u>

Pets In Need
Notes to Financial Statements
April 30, 2018

6. NOTES PAYABLE

Notes payable consisted of the following:

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.	\$ 857,460
Less current portion	<u>(36,243)</u>
	<u><u>\$ 821,217</u></u>

The future maturities of the notes payable are as follows:

<u>Year ending April 30,</u>	
2019	\$ 36,243
2020	37,567
2021	39,107
2022	40,625
2023	<u>703,918</u>
	<u><u>\$ 857,460</u></u>

The Organization is required to maintain compliance with certain financial covenants under the terms of the notes payable agreement; the Organization was in compliance with covenants at April 30, 2018.

The Organization is required to have 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, 2018, \$128,619 is shown as restricted cash for this balance.

Interest expense totaled \$33,364 for the year ended April 30, 2018.

7. RELATED PARTY TRANSACTIONS

Contributions were received from various board members of the Organization. These contributions for the year ended April 30, 2018 totaled \$50,850.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Unappropriated endowment earnings	\$ 715,853
Assistance with pet medical bills for low income seniors	<u>151,909</u>
	<u><u>\$ 867,762</u></u>

Pets In Need
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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 generally accepted accounting principles ("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 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 permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization 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, 2018.

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9. ENDOWMENT (continued)

Investment and spending policy

The investment manager is directed to follow an asset allocation strategy that will be consistent with the objectives set forth in the 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 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 / 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, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 715,853</u>	<u>\$ 1,938,624</u>	<u>\$ 2,654,477</u>

Pets In Need
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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:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, April 30, 2017	\$ -	\$ 537,746	\$ 1,938,624	\$ 2,476,370
Investment returns				
Interest and dividends	-	66,932	-	66,932
Realized and unrealized gains on investments	<u>-</u>	<u>111,175</u>	<u>-</u>	<u>111,175</u>
Balance, April 30, 2018	<u>\$ -</u>	<u>\$ 715,853</u>	<u>\$ 1,938,624</u>	<u>\$ 2,654,477</u>