

PETS IN NEED

**REPORT ON EXAMINATION
OF FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

**YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)**

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August 15, 2016

Board of Directors
Pets In Need
Redwood City, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of **Pets In Need**, which comprise the statement of financial position as of April 30, 2016, 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 audits. 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 of 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.

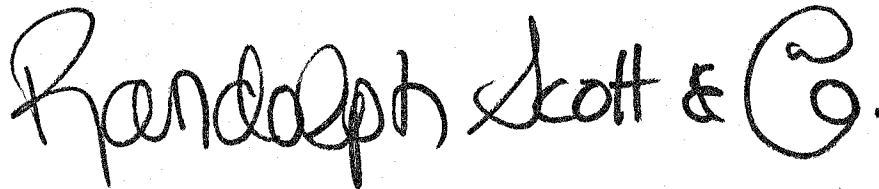
Board of Directors
Pets In Need
August 15, 2016

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, 2016, 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

We have previously audited **Pets In Need's** April 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2015 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 "Randolph Scott & Co." in a cursive, flowing script.

Certified Public Accountants, Inc.
Novato, California

PETS IN NEED
STATEMENT OF FINANCIAL POSITION
APRIL 30, 2016
(With Comparative Totals for 2015)

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total April 30, 2016</u>	<u>Total April 30, 2015</u>
CURRENT ASSETS:					
Cash and Cash Equivalents (Note A)	\$ 383,010	\$ -	\$ -	\$ 383,010	\$ 710,894
Investments, short-term (Note E)	25,359	-	-	25,359	303,639
Other Receivables	12,987	-	-	12,987	1,000
Prepaid Expenses	-	-	-	-	1,500
Total Current Assets	<u>421,356</u>	<u>-</u>	<u>-</u>	<u>421,356</u>	<u>1,017,033</u>
RESTRICTED CASH (Note H)	138,875	-	-	138,875	143,687
INVESTMENTS (Note E)	3,070,126	431,357	1,643,424	5,144,907	4,746,844
PROPERTY AND EQUIPMENT (Note F)	5,600,963	-	-	5,600,963	5,753,165
OTHER ASSETS:					
Deposits	<u>790</u>	<u>-</u>	<u>-</u>	<u>790</u>	<u>755</u>
TOTAL ASSETS	<u>\$ 9,232,110</u>	<u>431,357</u>	<u>1,643,424</u>	<u>\$ 11,306,891</u>	<u>11,661,484</u>
 LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Current Portion of Capital Lease (Note G)	\$ 3,002	\$ -	\$ -	\$ 3,002	\$ 3,395
Current Portion of Note Payable (Note H)	33,997	-	-	33,997	34,081
Accounts Payable	27,353	-	-	27,353	63,195
Accrued Expenses	<u>62,952</u>	<u>-</u>	<u>-</u>	<u>62,952</u>	<u>62,108</u>
Total Current Liabilities	<u>127,304</u>	<u>-</u>	<u>-</u>	<u>127,304</u>	<u>162,779</u>
CAPITAL LEASE OBLIGATION (Note G)	-	-	-	-	3,002
LONG-TERM PORTION OF NOTE PAYABLE (Note H)	891,834	-	-	891,834	923,858
OTHER LIABILITIES:					
Animal Training Deposits	<u>(75)</u>	<u>-</u>	<u>-</u>	<u>(75)</u>	<u>-</u>
Total Liabilities	<u>1,019,063</u>	<u>-</u>	<u>-</u>	<u>1,019,063</u>	<u>1,089,639</u>
NET ASSETS:					
Unrestricted Net Assets:					
Undesignated	8,074,172	-	-	8,074,172	8,338,937
Board Designated	138,875	-	-	138,875	143,687
Temporarily Restricted Net Assets (Note B):					
Donor Restricted	-	85,414	-	85,414	86,640
Endowment	-	345,943	-	345,943	359,157
Permanently Restricted Net Assets (Note C)					
Endowment	<u>-</u>	<u>-</u>	<u>1,643,424</u>	<u>1,643,424</u>	<u>1,643,424</u>
Total Net Assets	<u>8,213,047</u>	<u>431,357</u>	<u>1,643,424</u>	<u>10,287,828</u>	<u>10,571,845</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,232,110</u>	<u>\$ 431,357</u>	<u>\$ 1,643,424</u>	<u>\$ 11,306,891</u>	<u>\$ 11,661,484</u>

See Notes to the Financial Statements

PETS IN NEED

STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2016

(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total April 30, 2016</u>	<u>Total April 30, 2015</u>
CONTRIBUTIONS AND REVENUE:					
Contributions	\$ 1,366,534	\$ -	\$ -	\$ 1,366,534	\$ 2,364,077
Revenue:					
Adoption Fees	79,767	-	-	79,767	21,142
Animal Care and Other Fees	11,900	-	-	11,900	638
Special Events	-	-	-	-	3,960
Investment Income:					
Interest and Dividends	112,485	77,319	-	189,804	146,631
Realized Gain/ (Loss) on Sale of Investments	12,411	40,557	-	52,968	73,763
Unrealized Gain/ (Loss) on Investm	(81,104)	(113,945)	-	(195,049)	77,992
Merchandise Sales, net	1,314	-	-	1,314	-
Other Revenue	5,494	-	-	5,494	(1,043)
Net Assets Released From Restrictions (Note D):					
Satisfaction of Program Restrictions	18,371	(18,371)	-	-	-
Expiration of Time Restrictions	-	-	-	-	-
Total Contributions and Revenue	<u>1,527,172</u>	<u>(14,440)</u>	<u>-</u>	<u>1,512,732</u>	<u>2,687,160</u>
EXPENSES:					
Programs:					
Adoptions	264,564	-	-	264,564	336,629
Animal Care / Rescue	627,080	-	-	627,080	745,395
Medical	552,142	-	-	552,142	485,099
Spay & Neuter	4,204	-	-	4,204	14,324
Other	864	-	-	864	48,406
Total Programs	<u>1,448,854</u>	<u>-</u>	<u>-</u>	<u>1,448,854</u>	<u>1,629,853</u>
Supporting Services:					
General and Administrative	193,200	-	-	193,200	139,356
Fundraising	154,695	-	-	154,695	189,023
Total Supporting Services	<u>347,895</u>	<u>-</u>	<u>-</u>	<u>347,895</u>	<u>328,379</u>
Total Expenses	<u>1,796,749</u>	<u>-</u>	<u>-</u>	<u>1,796,749</u>	<u>1,958,232</u>
CHANGE IN NET ASSETS	(269,577)	(14,440)	-	(284,017)	728,928
NET ASSETS, beginning of year	<u>8,482,624</u>	<u>445,797</u>	<u>1,643,424</u>	<u>10,571,845</u>	<u>9,842,917</u>
NET ASSETS, end of year	<u>\$ 8,213,047</u>	<u>\$ 431,357</u>	<u>\$ 1,643,424</u>	<u>\$ 10,287,828</u>	<u>\$ 10,571,845</u>

See Notes to the Financial Statements

PETS IN NEED
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED APRIL 30, 2016
(With Comparative totals for 2015)

	Program Expenses				Supporting Services			Total 4/30/2015	
	Adoptions	Animal Care / Rescue	Medical	Spay & Neuter	Other	Administration	Fundraising and Development		Total 4/30/2016
EXPENSES:									
Salaries and Wages	\$ 153,056	352,927	282,964	-	-	44,458	82,805	\$ 916,210	\$ 885,958
Payroll Taxes	15,665	27,361	21,525	-	-	3,089	6,682	74,322	81,059
Workman's Compensation	5,206	10,413	8,220	-	-	1,370	2,146	27,355	40,558
Employee Benefits & Other	28,071	46,155	41,804	-	-	3,032	4,363	123,425	78,453
Total Personnel Costs	201,998	436,856	354,513	-	-	51,949	95,996	1,141,312	1,086,028
Contract Services	-	-	-	-	-	16,356	-	16,356	14,757
Supplies - Animal Care	980	28,542	68,676	-	-	718	81	98,997	87,536
Supplies - Feed	-	4,948	11,373	-	-	-	-	16,321	12,741
Supplies - Other	1,795	4,858	1,584	289	-	4,872	527	13,925	41,242
Telephone & Internet	1,671	2,382	1,881	-	-	8,111	2,452	16,497	32,232
Postage & Shipping	690	1,381	1,091	-	-	558	7,789	11,509	12,652
Printing & Copying	202	-	-	-	-	611	6,944	7,757	16,536
Rent	-	-	-	-	-	-	-	-	5,179
Utilities & Occupancy	9,511	44,798	15,427	-	-	4,098	4,264	78,098	142,540
Interest Expense	6,871	13,741	10,849	-	-	1,765	2,893	36,119	39,021
Equip. Rental & Maintenance	2,181	6,954	5,590	2,890	-	957	908	19,480	57,671
Travel & Meetings	1,041	-	314	305	-	2,965	-	4,625	3,298
Insurance	3,148	5,337	2,766	-	-	3,671	738	15,660	21,755
Staff Development	207	636	1,381	-	-	6,100	1,640	9,964	15,804
Advertising	-	225	150	-	-	-	13,329	13,704	9,714
Animal Services	-	-	21,494	-	864	-	-	22,358	41,131
Other	508	4,825	-	-	-	-	-	5,333	44,745
Fundraising Events	251	69	-	-	-	294	2,816	3,430	48,538
Business Expenses	1,182	2,504	4,008	720	-	81,668	706	90,788	52,650
Depreciation (Note F)	32,328	69,024	51,045	-	-	8,507	13,612	174,516	172,462
Total Operating Expenses	62,566	190,224	197,629	4,204	864	141,251	58,699	655,437	872,204
TOTAL EXPENSES	\$ 264,564	\$ 627,080	\$ 552,142	\$ 4,204	\$ 864	\$ 193,200	\$ 154,695	\$ 1,796,749	\$ 1,958,232

See Notes to the Financial Statements

PETS IN NEED

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

	<u>Total</u> <u>April 30, 2016</u>	<u>Total</u> <u>April 30, 2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (284,017)	\$ 728,928
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation (Note F)	174,516	172,462
Realized (Gain) / Loss on Investments	(52,968)	(73,763)
Unrealized (Gain) / Loss on Fair Value of Investments	195,049	(77,992)
(Increase) / Decrease in Assets:		
Pledges Receivable	-	10,000
Accounts Receivable	(11,987)	266,133
Prepaid Expenses	1,500	5,478
Restricted Cash	4,812	4,834
Deposit Rental	(35)	500
Increase / (Decrease) in Liabilities:		
Accounts Payable	(35,842)	46,524
Accrued Expenses	844	38,315
Deposits	(75)	(17,790)
Total Adjustments	<u>275,814</u>	<u>374,701</u>
Net Cash Provided (Used) By Operating Activities:	<u>(8,203)</u>	<u>1,103,629</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Capital Equipment	(22,314)	(8,761)
Purchase of Investments	(3,787,739)	(1,963,492)
Proceeds Received on Sale of Investments	3,525,875	1,055,074
Net Cash Provided (Used) By Investing Activities:	<u>(284,178)</u>	<u>(917,179)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments made on Capital Lease, less interest of \$316 and \$529 respectively	(3,395)	(3,182)
Payments made on Note Payable, less interest of \$36,118 and \$39,021 respectively	(32,108)	(32,203)
Net Cash Provided (Used) By Financing Activities:	<u>(35,503)</u>	<u>(35,385)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(327,884)</u>	<u>151,065</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>710,894</u>	<u>559,829</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 383,010</u>	<u>\$ 710,894</u>
Supplemental cash flow information		
Interest Paid	<u>\$ 36,434</u>	<u>\$ 39,550</u>

See Notes To the Financial Statements.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Pets In Need, (the Organization) is a nonprofit public benefit corporation established under the laws of California in 1967. 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.

Major Programs

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 providing free spay and neutering, free or low-cost vaccination clinics, 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 distributing regular press releases and flyers featuring adoptable animals to media outlets, veterinary hospitals, libraries, major donors and pet stores. The direct mail campaign keeps donors informed of the work the Organization is doing to adopt animals. The Organization promotes adoptions on local television and through weekly newspaper ads. In addition, there are outreach programs to take adoptable animals into the community. The Organization produces a monthly e-newsletter to promote adoptions by featuring stories about our 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 and would be put to death if they were not brought back to the Organization. The Organization van visits shelters each week to rescue dogs and cats. Once back at the shelter, the animals are screened and kept in quarantine for one week to make sure they do not have a contagious disease, they are vaccinated, dewormed, spayed or neutered and basic socialization is begun. 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

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major Programs – (Continued)

Free Spay/Neuter Program - Pets In Need has helped community members get their dogs and cats spayed or neutered at no cost since it was founded in 1965. Today, the Organization realizes that an aggressive spay/neuter program is critical to its No Kill mission. This program is so vital that the decision was made to offer it at absolutely no cost, thus removing any barrier for anyone to have their dogs and cats sterilized. There is no income threshold, and they do not limit the number of pets that they will sterilize. The goal in this is to keep dogs and cats in their homes where they belong, and to prevent the unwanted births of puppies and kittens. The only requirement is California residency.

General Administration and Fundraising – The general and administrative functions are necessary to maintain an equitable employment program, ensure an adequate working environment; provide for coordination and articulation of the Organization's Mission and Values; secure proper administrative functioning of the Board of Directors and manage the financial and budgetary responsibilities of the Organization. All donor communication and community education materials are designed, produced, and prepared for mailing by staff of the Organization.

Basis of Accounting and Reporting:

Accounting Method: The Organization maintains its records on the accrual basis of accounting.

Fund Accounting: To ensure the observance of limitations and restrictions placed on the use of available resources, the Organization maintains its accounts in accordance with the principles of fund accounting. Fund accounting is the system of classifying financial statement components into separate funds on the basis of activities and objectives specified by donors, grantors, officials and governing boards.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting in Accordance with FASB ASC 820-10: FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement. The Organization currently has no Level 3 investment assets.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting in Accordance with FASB ASC 820-10 – (Continued):

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Fund uses prices and inputs that are current as of the measurement date, including during the periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at April 30, 2016 or 2015.

Mutual Funds: Valued at the quoted value of shares held by the Agency at year end.

Corporate bonds: The fair value of corporate bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads. The spread data used are for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

Securities held-to-maturity and available for sale:

Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each statement of financial position date. Debt securities are classified as held-to-maturity when the Organization has the positive intent and ability to hold the securities to maturity. Debt securities for which the Organization does not have the intent or ability to hold to maturity are classified as available for sale.

Held-to-maturity securities are recorded as with short term or long term on the statement of financial position, based on contractual maturity date and are stated at amortized costs. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income. When the fair value of a debt security classified as held-to-maturity is different than its amortized cost, the Organization recognizes the fair value in the financial statements with the unrealized gains and losses reported under net realized and unrealized gain/losses on investments.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting in Accordance with FASB ASC 320-10 – (Continued):

Marketable equity securities and debt securities not classified as held-to-maturity are classified as available for sale. Available for sale securities are carried at fair value, with the unrealized gains and losses reported in these financial statements under net realized and unrealized gain/losses on investments. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income. When the fair value of a debt security classified as held-to-maturity or available-for-sale is different than its amortized cost, the Organization recognizes the fair value in the financial statements with the unrealized gains and losses reported in these financial statements under net realized and unrealized gain/losses on investments.

As further discussed in Note E, the Organization determines the fair value of investments by obtaining the market price per share or unit at year end. If the estimated fair value of securities exist at year-end for which there are no quoted market prices, then fair value will be based on similar types of securities that are traded in the market.

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 the reported amounts of assets, liabilities, net assets, and revenues and expenses for the reporting period. Actual results could differ from those estimates.

Fair Values of Financial Instruments:

The following methods were used to estimate the fair value of financial instruments:

Cash and cash equivalents: The carrying amount reported in the Statement of Financial Position for cash and cash equivalents approximates its fair value.

Notes Payable and Lease Obligation: The carrying value of the Organization's debt approximates fair value based on the remaining maturities or lease payments.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-
(Continued)

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of their acquisition date. Not included as cash equivalents are funds restricted as to their use, regardless of liquidity or the maturity dates of investments.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of uninsured cash balances. The Organization places its cash deposits with high-credit quality financial institutions. At times, balances in the Organization's cash accounts may exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. At April 30, 2016, the Agency had an uninsured balance of approximately \$273,000.

Accounts Receivable

The Organization does not maintain an allowance for estimated uncollectible accounts. When an account is determined uncollectible, it is deducted from the accounts receivable and charged to expense. The carrying amounts for accounts receivable reported in the statement of financial position approximates fair values.

Prepaid Expenses

Prepaid expense balances are calculated and adjusted at year end to properly charge funds in the period benefited.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation.

As further discussed in Note F depreciation of property, vehicles and equipment is calculated using the straight-line method based on estimated useful lives ranging from 5 to 39 years depending on the asset.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accrued Vacation and Sick Leave Benefits

Employee vacation benefits earned, but not used, are recognized as liabilities of the Organization. Regular full-time employees do not accrue vacation time during the first six months of employment. Part-time employees who work over 20 hours in a week accrue vacation benefits on a pro-rated basis, based on the number of hours worked.

Vacation leave for full-time employees shall accrue as follows:

Years of Service	Days Accrued
0 - 3 months	no accrual
3 months - 6 months	5 days per year
7 months - 1 year	10 days per year
1 - 3 years	15 days per year
4 - 5 years	20 days per year
over 5 years	25 days per year

Regular full-time employees who have completed their introductory period are provided four (4) days per calendar year of sick leave. Sick leave does not accrue and does not carry over from year to year. Unused sick leave benefits are not recognized at fiscal year-end as liabilities of the Organization. The total accrued vacation benefits at April 30, 2016 were \$23,764.

Revenue Recognition

Contributions and unconditional grants are recognized as support and revenues when they are received or unconditionally pledged. These contributions and gifts are shown as restricted support and revenues if they are subject to time or donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is accomplished, or both. However, temporarily restricted contributions and grants are reported as unrestricted support and revenues if the restriction is met in the same year that the gift is received.

Conditional contributions are not recorded as support and revenues until the conditions are met. Payments classified as exchange transactions (reciprocal transfers between two entities in which goods and services of equal value is exchanged) are not recorded as other support and revenue until allowable expenditures are incurred.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services and Materials

Contributions of services are recorded at estimated fair value when received if such services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Management estimates that volunteers donated approximately 1,800 hours during the fiscal year ended April 30, 2016. As the Organization does not control the employment and activity of the service donors, comparable to the control of salaried personnel, and there is no clearly measurable basis for the value of the services performed, the amounts are not reported in these financial statements.

Donated materials are recorded as contributions at their estimated fair values, if determinable, at the date of the donation. Donated marketable securities are recorded as contributions at their estimated fair values at the date of the donation.

Functional Allocation of Expenses

Certain expenses are allocated to various program and support services. The Organization updates its cost allocation plans annually. The Organization obtains approval of the cost allocation plan from its Board of Directors. Its written cost allocation plan, including descriptions and percentages is on file in the organization's main accounting office. The Organization applies several methods for allocating costs:

Direct Costs. Costs identified 100 percent to a specific program are charged directly to that program.

Shared Costs. Costs identified to specific multiple programs or activities are shared between the programs benefitting.

- Payroll costs are allocated using individual time sheets that report the actual time spent by employees in each program each day.
- Rent and associated utilities, maintenance, and insurance are allocated using the square footage of building space occupied by each program, according to floor plans. Common areas are shared based on the percentage of personnel costs charged to a specific program to the total personnel costs of the Agency.
- Office expenses such as supplies, telephone and postage and printing are allocated based on the percentage of personnel costs charged to a specific program to the total personnel costs of the Agency.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization has received tax exempt status under Section 501 (c) (3) of the Internal Revenue Code, and Section 23701 (d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the Organization's exempt purpose is subject to taxation as unrelated business income. The Organization also qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Endowment Funds

Endowment Funds are funds functioning as an endowment that are established by the donor and will be retained and invested rather than expended. As required by GAAP, net assets associated with an endowment fund, 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. At April 30, 2016, the Organizations endowment consists of two individual funds, both of which were established to generate additional annual income to augment the Organization's operating budget primarily for the care of animals.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA.

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 SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature will be reported in unrestricted net assets. There were no unrestricted net assets associated with the Endowment Fund at April 30, 2016.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Strategies Employed for Achieving Objectives

The investment objectives for the endowment funds are as follows:

1. To manage the contributions in a manner that will maximize the benefit to the organization while remaining cognizant of risk association with such investments.
2. To achieve a total return from the investments sufficient to overpace inflation, provide reasonable growth of the asset base and current income to support the programs of the organization both today and into the future.

Investment and Spending Policies:

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:

1. 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.
2. Depending on the markets, the investment manager is given latitude as to the relationship of equities to fixed income holdings. As a guideline, the trustees have 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 trustees.

It is the policy of the trustees to preserve the value of its endowment in real terms while providing funds to the Agency for operations. Annually the Agency's board may authorize the withdrawal of a portion of the Agency'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.

Summarized Financial Information For 2015:

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended April 30, 2015, from which the information was derived.

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE B - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

At April 30, 2016, temporarily restricted net assets available for future use are as follows:

	<u>4/30/2016</u>
Endowment	\$ 345,943
Donor Restricted: Operations:	<u>85,414</u>
	<u>\$ 431,357</u>

NOTE C – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the donor restricted portion of the Endowment Funds of the Agency. The Organization will receive and place in this fund gifts restricted by donors for endowment purposes. The composition of the Organization's endowment fund by net asset class and a reconciliation of the beginning and ending balance of the Organization's endowment follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ -	\$ 359,157	\$ 1,643,424	\$ 2,002,581
Contributions	-	-	-	-
Investment return:				
Investment income	-	74,485	-	74,485
Realized Gain/(Loss)	-	39,540	-	39,540
Unrealized Gain/(Loss)	-	(110,681)	-	(110,681)
Investment fees	-	(16,558)	-	(16,558)
Total investment return	-	(13,214)	-	(13,214)
Transfers In / (Out)	-	-	-	-
Endowment Net Assets, end of year	<u>\$ -</u>	<u>\$ 345,943</u>	<u>\$ 1,643,424</u>	<u>\$ 1,989,367</u>

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE D - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

For the year ended April 30, 2016, net assets released from donor restrictions were as follows:

Purpose: Operations	\$ <u>18,371</u>
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NOTE E – INVESTMENTS

The Organization's assets are recorded at fair value and as previously discussed, have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820-10. Total investments held at April 30, 2016 consisted of the following:

	April 30, 2016			April 30, 2015	
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value	Total Estimated Fair Value
Cash	\$ 167,037	\$ -	\$ -	\$ 167,037	\$ 158,617
Level 1 Hierarchy:					
Available-for-Sale:					
Mutual Funds	1,240,696	52,613	-	1,293,309	457,104
Equity Securities:					
Consumer Discretionary	187,228		(4,274)	182,954	171,221
Consumer Staples	99,459	2,259		101,718	227,024
Domestic ETF	-			-	180,101
Energy	85,549	3,793		89,342	150,232
Financials	238,395	9,134		247,529	226,927
Healthcare	207,138		(2,993)	204,145	221,916
Industrials	178,015	9,548		187,563	249,049
Information Technology	214,310	16,798		231,108	267,498
International	518,309	4,362		522,671	767,586
Utilities	-			-	71,495
Real Estate	-			-	77,472
Other Minor	40,577	1,318		41,895	88,268
Portfolio & Other	485,071	19,123		504,194	20,753
Level 2 Hierarchy:					
Hold-to-Maturity:					
Corporate Bonds-ST	25,349	10		25,359	303,639
Corporate Bonds-LT	1,339,491	21,220		1,360,710	1,400,694
U.S. Govt Agency -ST	-	-	-	-	-
U.S. Govt Agency -LT	10,102	630	-	10,732	10,887
	<u>\$ 5,036,726</u>	<u>\$ 140,808</u>	<u>\$ (7,267)</u>	<u>\$ 5,170,266</u>	<u>\$ 5,050,483</u>

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE E – INVESTMENTS – (CONTINUED)

During the year ended April 30, 2016, available-for-sale and held-to-maturity securities were sold for total proceeds of \$2,742,286 and \$783,589 respectively. The gross realized gains on these sales totaled \$57,406 and (\$4,438) respectively. For the purpose of determining gross realized gains, the cost of securities sold is based on specific identification. The Net unrealized holding loss on securities of (\$195,049) has been included under investment income in the statement of activities for the year ended April 30, 2016.

Contractual maturities of held-to-maturity securities at April 30, 2016 are as follows:

	<u>Held-to-Maturity Securities</u>
Due in one year or less	\$ 25,359
Due in 2-5 years	692,079
Due in 6-10 years	<u>680,363</u>
Total Investments in Held-to-Maturity Securities:	<u>\$ 1,397,801</u>

Total return on investments during the year ended April 30, 2016 was as follows:

	<u>Interest & Dividends</u>	<u>Realized Gain / (Loss) on Sale of Investments</u>	<u>Current Year's Unrealized Gain / (Loss) on Investments (Fair Value Adj.)</u>	<u>Total Return on Investments</u>
Money Funds	\$ 3	\$ -	\$ -	\$ 3
Corporate Bonds	66,222	(4,438)	(1,599)	60,185
Government Securities	375	-	(120)	255
Mutual Funds	29,525	(14,365)	27,430	42,590
Equity Securities	42,225	94,235	(199,639)	(63,179)
Other	51,052	(22,464)	(21,121)	7,467
	<u>\$ 189,402</u>	<u>\$ 52,968</u>	<u>\$ (195,049)</u>	<u>\$ 47,321</u>

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE F - PROPERTY AND EQUIPMENT

At April 30, 2016, equipment consisted of the following:

	<u>Cost Basis</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Automobiles	\$ 173,466	\$ 173,466	\$ 0
Furniture & Equipment	96,938	80,290	16,648
Capital Leased Equipment	15,805	13,171	2,634
Building - Shelter	6,520,637	1,070,966	5,449,671
Land	132,008	-	132,008
	<u>\$ 6,938,854</u>	<u>\$ 1,337,893</u>	<u>\$ 5,600,961</u>

Included in the Shelter balance above is capitalized interest at a cost of \$74,845 and accumulated depreciation of \$12,314. For the year ended April 30, 2016, the total depreciation expense was \$174,516.

NOTE G – CAPITAL LEASE PAYABLE

At April 30, 2016, Capital Lease Payable consisted of the following:

Copier lease with monthly payments of principal and interest of approximately \$309 through February of 2017. \$ 3,002

Future annual payments on the capital lease obligation is as follows:

Year Ending: April 30, 2017	\$ 3,092
Less amount representing interest	<u>90</u>
Total future principal payments	<u>\$ 3,002</u>

PETS IN NEED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016
(With Comparative Totals for 2015)

NOTE H – NOTES PAYABLE

At April 30, 2016, the note payable consisted of the following:

Note payable to financial institution, secured with principle and interest (3.76%) due in monthly installments of approx. \$5,687 and maturing on May 3, 2022.

\$ 925,831

Less: Current Portion

33,997

Long-Term Note Payable

\$ 891,834

Future principal maturities consist of the following:

Year Ending:	April 30, 2017	\$ 33,997
	April 30, 2018	35,298
	April 30, 2019	36,648
	April 30, 2020	38,050
	April 30, 2021	39,506
	Thereafter	<u>742,332</u>
		\$ <u><u>925,831</u></u>

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 outstanding loan balance. At April 30, 2016, \$138,875 is shown as restricted cash for this balance.

NOTE I – SUBSEQUENT EVENTS

The Organization has evaluated their financial position and activities from the April 30, 2016 year end of this report through August 15, 2016 which is the date that the financial statements were available to be issued. No material subsequent event items that required recognition or disclosure were identified.