

Pets In Need

Financial Statements

April 30, 2023

(With Comparative Totals for 2022)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 22



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pets In Need
Redwood City, California

Opinion

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pets In Need and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pets In Need's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a

test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Pets In Need's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pets In Need's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Pets In Need's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2022, 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

January 16, 2024

Pets In Need
Statement of Financial Position
April 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 778,596	\$ 274,177	\$ 1,052,773	\$ 559,466
Investments - non-endowment	3,350,878	-	3,350,878	6,635,590
Other receivables	117,263	-	117,263	168,072
Contributions and grants receivable	1,924,272	-	1,924,272	104,909
Prepaid expenses	13,437	-	13,437	12,477
Total current assets	<u>6,184,446</u>	<u>274,177</u>	<u>6,458,623</u>	<u>7,480,514</u>
Property and equipment, net	<u>4,837,286</u>	<u>-</u>	<u>4,837,286</u>	<u>5,162,060</u>
Other assets				
Restricted cash	-	-	-	123,178
Deposits	5,706	-	5,706	5,706
Investments - endowment	-	3,783,894	3,783,894	3,745,255
Operating lease right-of-use assets	<u>126,752</u>	<u>-</u>	<u>126,752</u>	<u>-</u>
Total other assets	<u>132,458</u>	<u>3,783,894</u>	<u>3,916,352</u>	<u>3,874,139</u>
Total assets	<u>\$ 11,154,190</u>	<u>\$ 4,058,071</u>	<u>\$ 15,212,261</u>	<u>\$ 16,516,713</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 118,012	\$ -	\$ 118,012	\$ 42,017
Accrued expenses	322,105	-	322,105	303,162
Note payable	-	-	-	704,324
Operating lease liabilities, current portion	<u>79,142</u>	<u>-</u>	<u>79,142</u>	<u>-</u>
Total current liabilities	<u>519,259</u>	<u>-</u>	<u>519,259</u>	<u>1,049,503</u>
Long-term liabilities				
Operating lease liabilities, net of current portion	<u>44,385</u>	<u>-</u>	<u>44,385</u>	<u>-</u>
Total long-term liabilities	<u>44,385</u>	<u>-</u>	<u>44,385</u>	<u>-</u>
Total liabilities	<u>563,644</u>	<u>-</u>	<u>563,644</u>	<u>1,049,503</u>
Net assets				
Without donor restrictions				
Undesignated	554,643	-	554,643	1,858,372
Board designated	<u>10,035,903</u>	<u>-</u>	<u>10,035,903</u>	<u>9,656,353</u>
Total without donor restrictions	<u>10,590,546</u>	<u>-</u>	<u>10,590,546</u>	<u>11,514,725</u>
With donor restrictions				
Restricted for specified purpose	-	274,177	274,177	207,230
Subject to appropriation and spending policy	-	1,845,270	1,845,270	1,806,631
Held in perpetuity	<u>-</u>	<u>1,938,624</u>	<u>1,938,624</u>	<u>1,938,624</u>
Total with donor restrictions	<u>-</u>	<u>4,058,071</u>	<u>4,058,071</u>	<u>3,952,485</u>
Total net assets	<u>10,590,546</u>	<u>4,058,071</u>	<u>14,648,617</u>	<u>15,467,210</u>
Total liabilities and net assets	<u>\$ 11,154,190</u>	<u>\$ 4,058,071</u>	<u>\$ 15,212,261</u>	<u>\$ 16,516,713</u>

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

Pets In Need
Statement of Activities
For the Year Ended April 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Support and revenue				
Bequests	\$ 2,863,201	\$ -	\$ 2,863,201	\$ 2,557,376
Contributions	1,120,970	79,413	1,200,383	1,760,201
Animal care and other fees	1,055,555	-	1,055,555	931,943
Government grant	339,990	-	339,990	579,107
Adoption fees	171,225	-	171,225	145,211
Other revenue	5,697	-	5,697	139,550
In-kind contributions	5,621	-	5,621	83,333
Merchandise sales, net	1,461	-	1,461	1,993
Forgiveness of Paycheck Protection Program loan	-	-	-	456,400
Total support and revenue	<u>5,563,720</u>	<u>79,413</u>	<u>5,643,133</u>	<u>6,655,114</u>
Investment income (loss)				
Interest and dividends	118,890	81,732	200,622	218,647
Realized and unrealized losses on investments, net	<u>(123,980)</u>	<u>(43,093)</u>	<u>(167,073)</u>	<u>(966,274)</u>
Total investment income (loss)	<u>(5,090)</u>	<u>38,639</u>	<u>33,549</u>	<u>(747,627)</u>
Net assets released from restriction	<u>12,466</u>	<u>(12,466)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and investment income (loss)	<u>5,571,096</u>	<u>105,586</u>	<u>5,676,682</u>	<u>5,907,487</u>
Functional expenses				
Program services				
Adoptions	1,088,783	-	1,088,783	1,266,061
Behavior	198,690	-	198,690	-
Medical	2,037,929	-	2,037,929	1,779,886
Outreach / education	549,268	-	549,268	-
Animal care / foster	<u>1,321,202</u>	<u>-</u>	<u>1,321,202</u>	<u>1,532,618</u>
Total program services	<u>5,195,872</u>	<u>-</u>	<u>5,195,872</u>	<u>4,578,565</u>
Support services				
Management and general	845,702	-	845,702	368,194
Fundraising	<u>453,701</u>	<u>-</u>	<u>453,701</u>	<u>818,982</u>
Total support services	<u>1,299,403</u>	<u>-</u>	<u>1,299,403</u>	<u>1,187,176</u>
Total functional expenses	<u>6,495,275</u>	<u>-</u>	<u>6,495,275</u>	<u>5,765,741</u>
Change in net assets	(924,179)	105,586	(818,593)	141,746
Net assets, beginning of year	<u>11,514,725</u>	<u>3,952,485</u>	<u>15,467,210</u>	<u>15,325,464</u>
Net assets, end of year	<u>\$ 10,590,546</u>	<u>\$ 4,058,071</u>	<u>\$ 14,648,617</u>	<u>\$ 15,467,210</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, 2023
(With Comparative Totals for 2022)

	Program Services						Support Services			
	Adoptions	Behavior	Medical	Outreach / Education	Animal Care / Foster	Total Program Services	Management and General	Fundraising	2023 Total	2022 Total
Personnel expenses										
Salaries and wages	\$ 678,456	\$ 107,976	\$ 1,071,304	\$ 304,343	\$ 809,283	\$ 2,971,362	\$ 220,543	\$ 155,212	\$ 3,347,117	\$ 3,138,701
Salaries and wages, in-kind	-	-	-	-	-	-	-	-	-	83,333
Employee benefits	127,936	9,442	146,416	58,694	106,885	449,373	78,386	28,771	556,530	574,711
Payroll taxes	75,688	11,250	99,992	32,909	90,315	310,154	22,137	15,043	347,334	314,964
Workers compensation	8,368	2,708	24,184	4,536	19,220	59,016	5,834	1,027	65,877	53,580
Total personnel expenses	<u>890,448</u>	<u>131,376</u>	<u>1,341,896</u>	<u>400,482</u>	<u>1,025,703</u>	<u>3,789,905</u>	<u>326,900</u>	<u>200,053</u>	<u>4,316,858</u>	<u>4,165,289</u>
Other expenses										
Business expenses	14,294	3,452	13,172	615	12,207	43,740	301,209	29,316	374,265	312,462
Depreciation	57,721	12,316	143,700	49,596	19,082	282,415	22,380	27,972	332,767	338,909
Supplies - other	6,738	127	206,643	1,321	14,598	229,427	12,521	6,604	248,552	38,728
Utilities and occupancy	39,185	2,557	66,767	10,299	64,063	182,871	13,071	14,289	210,231	129,919
Staff development	10,290	3,460	31,241	8,526	20,221	73,738	54,826	12,014	140,578	10,455
Animal services	1,219	-	128,401	350	3,600	133,570	-	-	133,570	93,224
Advertising	267	-	-	-	-	267	77,007	-	77,274	6,442
Supplies - animal care	30,769	164	4,651	8,240	68,207	112,031	784	373	113,188	151,026
Equipment rental and maintenance	13,246	1,649	24,342	14,068	19,410	72,715	24,583	7,735	105,033	122,257
Assistance program	-	-	51,950	47,526	-	99,476	-	164	99,640	56,473
Contract services	-	-	-	-	-	-	-	71,400	71,400	148,423
Supplies - feed	9,312	239	184	377	49,325	59,437	-	-	59,437	27,381
Other	711	41,676	149	-	13,490	56,026	1,334	17,239	74,599	5,352
Fundraising expenses	-	-	-	-	-	-	-	39,293	39,293	1,302
Insurance	5,689	1,027	13,638	4,137	3,728	28,219	8,129	2,770	39,118	24,748
Telephone and internet	4,990	491	9,233	1,978	5,947	22,639	2,497	6,316	31,452	32,239
Postage and shipping	2,429	-	-	-	45	2,474	261	12,203	14,938	28,462
Travel and meetings	335	23	1,425	877	388	3,048	127	2,565	5,740	513
Interest	1,001	133	537	538	1,188	3,397	-	491	3,888	27,261
Printing and copying	139	-	-	338	-	477	73	2,904	3,454	44,876
Total other expenses	<u>198,335</u>	<u>67,314</u>	<u>696,033</u>	<u>148,786</u>	<u>295,499</u>	<u>1,405,967</u>	<u>518,802</u>	<u>253,648</u>	<u>2,178,417</u>	<u>1,600,452</u>
	<u>\$ 1,088,783</u>	<u>\$ 198,690</u>	<u>\$ 2,037,929</u>	<u>\$ 549,268</u>	<u>\$ 1,321,202</u>	<u>\$ 5,195,872</u>	<u>\$ 845,702</u>	<u>\$ 453,701</u>	<u>\$ 6,495,275</u>	<u>\$ 5,765,741</u>
Percentage of total	<u>17 %</u>	<u>3 %</u>	<u>31 %</u>	<u>9 %</u>	<u>20 %</u>	<u>80 %</u>	<u>13 %</u>	<u>7 %</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, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ (818,593)	\$ 141,746
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	332,767	338,909
Realized and unrealized losses on investments	141,960	966,274
Forgiveness of Paycheck Protection Program loan	-	(456,400)
Donated securities	-	(77,209)
Changes in operating assets and liabilities		
Other receivables	50,809	(105,917)
Contributions and grants receivable	(1,819,363)	(104,909)
Prepaid expenses	(960)	(12,477)
Accounts payable	75,995	(130,868)
Accrued expenses	18,943	(12,994)
Operating lease liabilities	(3,225)	-
Net cash provided by (used in) operating activities	<u>(2,021,667)</u>	<u>546,155</u>
Cash flows from investing activities		
Purchase of property and equipment	(7,993)	(33,240)
Purchase of investments	(171,876)	(2,089,515)
Proceeds from the sale of investments	<u>3,275,989</u>	<u>589,199</u>
Net cash provided by (used in) investing activities	<u>3,096,120</u>	<u>(1,533,556)</u>
Cash flows from financing activities		
Payment on note payable	<u>(704,324)</u>	<u>(40,965)</u>
Net cash used in financing activities	<u>(704,324)</u>	<u>(40,965)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	370,129	(1,028,366)
Cash, cash equivalents and restricted cash, beginning of year	<u>682,644</u>	<u>1,711,010</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 1,052,773</u>	<u>\$ 682,644</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,052,773	\$ 559,466
Restricted cash	<u>-</u>	<u>123,178</u>
	<u>\$ 1,052,773</u>	<u>\$ 682,644</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 3,888	\$ 27,261
----------------------------------------	----------	-----------

Supplemental schedule of noncash investing and financing activities

Operating lease right-of-use assets obtained in exchange for lease liabilities	\$ 177,911	\$ -
--------------------------------------------------------------------------------	------------	------

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

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

1. NATURE OF OPERATIONS

Founded in 1965, Pets In Need ("PIN" or the "Organization") is a nonprofit animal shelter and adoption agency dedicated to improving the lives and well-being of animals and humans in the San Francisco Peninsula and beyond. Its mission is to provide animals with loving care and lasting homes, to partner with communities striving to do the same, and to advance its no-kill legacy. The Organization receives contributions from private individuals, corporations, and foundations.

The Organization operates on-site animal shelters in Redwood City, its flagship location, and more recently in Palo Alto. Services at the Palo Alto shelter began in 2019 as the Organization embarked on a contract with the City of Palo Alto to manage and operate the municipal shelter (previously Palo Alto Animal Services) serving the communities of Palo Alto, Los Altos, and Los Altos Hills.

This historic partnership has enabled the Organization to expand its lifesaving work to an even wider community and to amplify a model of partnership for the humane treatment of animals in public shelters. Over these four years, the Organization has saved lives and positively impacted families across an entirely new service area, in part by cultivating a welcoming gathering space in the community to facilitate adoptions, animal welfare events, and human-animal bonding. In the last year, the Organization has also consistently increased its animal rescue rates, which include animals it brings in from high-intake partner shelters. The Organization's Save Rate for Fiscal year 2023 was 98 percent, well above the minimum standard of 90 percent upheld by the and the data conglomerate for organizations considered "no-kill" shelters.

The Organization employs a range of programs and operational departments to drive its mission of providing lifesaving care and services inside and outside its shelter walls. Its core work of finding loving, lasting homes for homeless, abandoned, and surrendered animals engages departments across the Organization.

- *Adoptions* - Adoptions staff and Animal Care Specialists socialize and care for in-shelter animals, facilitate adoption matches, and counsel potential adopters, all while promoting barrier-free adoptions to place more animals with loving families. PIN also manages a large, engaged base of volunteers who contribute to a variety of organizational areas. Its Development and Communications department promotes adoptions via a robust marketing program, including website, social media and email channels, and special adoption events and promotions.
- *Behavior* - An onsite Behaviorist works with volunteers to train and enrich dogs to become more adoptable, and volunteers work with cats and rabbits to socialize them for adoption success. Providing behavior services is crucial to ensuring that dogs can cope with the stressful environment of living in a shelter, can learn basic commands, and can adapt to moving into a home environment. Foster to adopt and adopted pets are more likely to have successful adoptions after working with a behaviorist.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

1. NATURE OF OPERATIONS (continued)

- *Medical* - PIN is committed to optimizing the health, safety, and well-being of its shelter guests, and each shelter maintains a dedicated veterinary staff and volunteers who provide excellent care and quality medical services. For animals arriving to PIN through Intake or from high-intake regional shelters, veterinary staff performs basic medical exams, spay/neuter surgeries, vaccinations, and deworming regimens. For animals requiring further or specialized treatment, PIN provides medical care in-house or through partner specialty providers.
- *Outreach and education* - Utilizing a community-based approach to save and improve lives, PIN extends its services and assistance outside its shelter walls - into the community - to directly serve pets and the families who love them. This industry-leading model, known as “Access to Care,” helps pet parents regardless of socioeconomic status and directs resources to keep pets in their homes and out of shelters. Services include low-cost and free vaccinations, spay/neuter surgeries, microchips, veterinary procedures, pet food and basic supplies, and more to under-resourced pet families. To increase access to community medicine, some services are delivered via PIN’s two mobile vans at various sites in the community. Through several designated funds, PIN also provides low-income pet parents or those facing economic hardship with financial support for medical care or services, allowing cherished pets to stay with their families. Integral to PIN’s Access to Care and outreach initiatives are community and organizational partnerships. Working in concert with rescue organizations and partner shelters, PIN conducts rescue runs to high-intake shelters, sometimes outside the region, to bring in at-risk animals who need extra time to find homes. Partnerships with medical providers enable an extra layer of veterinary care and expertise outside the shelter walls. And collaborations with community partners have enabled robust humane education curricula, youth programs and corporate partnerships that strengthen and promote the life-affirming animal-human bond. Working with valued partners allows PIN to save more lives, cultivate a kinder, more compassionate world for animals and their human families, and transform what animal welfare can and will do.
- *Animal care and foster* - The Animal Care team of PIN consists of 15 staff who care for the daily needs and wellbeing of all of its sheltered and fostered pets. Foster coordinators work with PIN’s foster network to place animals in temporary homes, which expands shelter capacity while ensuring animals receive love and support on their journey to adoption. Foster volunteers open their homes on a temporary basis, expanding the Organization's capacity to care for animals with special needs. PIN provides all of the training and support the foster volunteers could possibly need.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, consistent with accounting principles generally accepted in the United States of America.

- *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, 2023 and 2022. The income from earnings on these contributions is available to support activities of the Organization as designated by the donors.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Adoption of accounting standards update

In February 2016, the FASB issued Accounting Codification ("ASC 842") *Leases*. ASC 842 aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12 months as right-of-use ("ROU") asset and corresponding lease liabilities on the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liability should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liability will bear interest expense and be reduced for lease payments. ASC 842 is effective for the Organization for the fiscal year beginning after December 15, 2021. The Organization adopted ASC 842 on May 1, 2022 using the modified retrospective approach, recording operating right-of-use assets and lease liabilities of \$177,911 and \$168,440, respectively, for leases greater than twelve months. Operating lease liability represents the present value of the remaining lease payments, as of the date of option, discounted using the risk-free rate. The adoption of the new lease accounting standard did not have a material impact on the Organization's statement of financial position, operating results and cash flows.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

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, 2022 amounted to \$123,178, as a compensating balance of at least 15% of the outstanding note payable (the "Note") balance (see Note 6). This amount was included in noncurrent restricted cash in the accompanying statement of financial position. The restricted cash was released when the Note was paid off during the year ended April 30, 2023.

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, 2023
(With Comparative Totals for 2022)

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, 2023 and 2022.

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, 2023 and 2022, the Organization received donated services valued at \$5,621 and \$83,333. The donated services were reported at fair value in the financial statements based on the estimated salary for a similar position.

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.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

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, 2023 and 2022 totaled \$77,274 and \$6,442, 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, 2023 and 2022, 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, 2023
(With Comparative Totals for 2022)

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, 2022 from which the summarized information was derived.

Reclassifications

Certain board designated net assets have been reclassified within the net assets without donor restrictions as of April 30, 2022. In addition, certain expenses in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events

The Organization has evaluated events and transactions subsequent to April 30, 2023, for potential recognition or disclosure in the financial statements. The Organization has subsequent events that required recognition or disclosure in the financial statements for the year ended April 30, 2023 (see Note 15). Subsequent events have been evaluated through the date the financial statements became available to be issued, January 16, 2024.

3. INVESTMENTS

Investments consisted of the following:

	<u>2023</u>	<u>2022</u>
Investments - non-endowment	\$ 3,350,878	\$ 6,635,590
Investments - endowment	<u>3,783,894</u>	<u>3,745,255</u>
	<u>\$ 7,134,772</u>	<u>\$ 10,380,845</u>

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

3. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of April 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 5,756,449	\$ -	\$ -	\$ 5,756,449
Bonds	<u>1,378,323</u>	<u>-</u>	<u>-</u>	<u>1,378,323</u>
	<u><u>\$ 7,134,772</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,134,772</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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 7,527,089	\$ -	\$ -	\$ 7,527,089
Bonds	<u>2,853,756</u>	<u>-</u>	<u>-</u>	<u>2,853,756</u>
	<u><u>\$ 10,380,845</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,380,845</u></u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Building - shelter	\$ 6,964,374	\$ 6,956,380
Land	132,008	132,008
Furniture and equipment	570,101	570,101
Vehicles	<u>270,679</u>	<u>270,679</u>
	7,937,162	7,929,168
Accumulated depreciation	<u>(3,099,876)</u>	<u>(2,767,108)</u>
	<u><u>\$ 4,837,286</u></u>	<u><u>\$ 5,162,060</u></u>

Total depreciation expense amounted to \$332,767 and \$338,909 for the years ended April 30, 2023 and 2022, respectively.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

5. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	<u>2023</u>	<u>2022</u>
Accrued vacation	\$ 186,448	\$ 221,290
Accrued salaries and wages	81,344	62,730
Accrued employee benefits	-	18,128
Accrued expenses other	<u>37,074</u>	<u>1,014</u>
	<u><u>\$ 304,866</u></u>	<u><u>\$ 303,162</u></u>

6. NOTE PAYABLE

Note payable consisted of the following:

	<u>2023</u>	<u>2022</u>
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 was paid on May 3, 2022, the maturity date.	\$ -	\$ 704,324
Less current portion	<u>-</u>	<u>(704,324)</u>
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Organization was 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, 2022. The note payable was secured by the Organization's real property.

The Organization was required to maintain a restricted cash account as a compensating balance for the Note, in an amount of \$123,178. The restriction was released after the Note was paid off.

Interest expense totaled \$3,888 and \$27,261 for the years ended April 30, 2023 and 2022, respectively.

7. PAYCHECK PROTECTION PROGRAM 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 Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

7. PAYCHECK PROTECTION PROGRAM REFUNDABLE ADVANCE (continued)

In June 2021, the Organization received full forgiveness of outstanding balances related to the PPP loan from the SBA, and recognized income of \$456,400 in the accompanying statement of activities for the year ended April 30, 2022.

8. EMPLOYEE RETENTION CREDITS

Under the provisions of the CARES Act signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Organization was eligible for a refundable Employee Retention Credit ("ERC") subject to certain criteria. Two critical tests for eligibility exist - a partial or total government-ordered shutdown, or a decline in gross receipts. The decline in gross receipts test is based on a "significant" decline in gross receipts in quarters of 2020 (more than 50%) and 2021 (more than 20%) compared with the same quarters in 2019. The ERC is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. The ERC is equal to 70% of qualified wages paid to employees during calendar 2021 for a maximum credit of \$7,000 per employee for each calendar quarter through September 30, 2021.

The Organization determined it was eligible to apply for the ERC and calculated a total ERC of approximately \$1.2 million for the wages paid during the period April 2020 through September 30, 2021. The Organization recognizes the ERC funds as revenue once it is confirmed that all conditions of the ERC have been met (i.e. any related barriers have been overcome and a right of release/right of return no longer exists). As of January 16, 2024, the date these financial statements are available to be issued, the Organization has not completed its determination of eligibility for the second quarter of 2020, therefore the barrier and right of return/release has not yet been met for this quarter and the Organization has recorded a liability for \$17,239. The remaining ERC has been recognized as income for the payment received during the year ended April 30, 2023. During the year ended April 30, 2023 and 2022, the Organization recognized ERCs of \$339,990 and \$579,107, respectively, as a government grant on the accompanying statement of activities.

9. RELATED PARTY TRANSACTIONS

Contributions were received from board members of the Organization. These contributions for the years ended April 30, 2023 and 2022 totaled \$36,717 and \$25,084, respectively.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

10. NET ASSETS WITHOUT DONOR RESTRICTIONS

Board designated net assets consisted of the following:

	<u>2023</u>	<u>2022</u>
Operating reserve	\$ 500,000	\$ 500,000
Capital reserve	1,500,000	1,500,000
Endowment reserve	3,198,617	3,198,617
Property and equipment, net of related debt	<u>4,837,286</u>	<u>4,457,736</u>
	<u><u>\$ 10,035,903</u></u>	<u><u>\$ 9,656,353</u></u>

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2023</u>	<u>2022</u>
Donor-restricted endowment funds	\$ 1,938,624	\$ 1,938,624
Unappropriated endowment earnings	1,845,270	1,806,631
Assistance with pet medical bills for low income seniors	247,220	177,535
Second chance fund	<u>26,957</u>	<u>29,695</u>
	<u><u>\$ 4,058,071</u></u>	<u><u>\$ 3,952,485</u></u>

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

	<u>2023</u>	<u>2022</u>
Assistance with pet medical bills for low income seniors	\$ 738	\$ 21,855
Second chance fund	<u>11,728</u>	<u>21,308</u>
	<u><u>\$ 12,466</u></u>	<u><u>\$ 43,163</u></u>

12. 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, and a board designated endowment fund. As required by U.S. GAAP net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

12. 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, 2023 and 2022.

Investment and spending policy

The Organization's investment manager is directed to follow an asset allocation strategy that will be consistent with the objectives set forth in the investment policy to include the following:

- Diversification that will include both common stock and fixed income investments; a) equity investments: diversification that will result in a portfolio of issues that represent a range of industry groups to spread investment risk over a broad base; b) fixed income investments: to include obligations of the U.S. Treasury, agencies of the U.S. government and at least 90% of corporate debt to be investment grade.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

12. 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, 2023 and 2022.

Endowment composition

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

	<u>2023</u>	<u>2022</u>
Board designated quasi-endowment	\$ 3,198,617	\$ 3,198,617
Donor restricted endowment funds	1,938,624	1,938,624
Unappropriated endowment earnings	<u>1,845,270</u>	<u>1,806,631</u>
	<u>\$ 6,982,511</u>	<u>\$ 6,943,872</u>

Changes in endowment net assets for the fiscal year ended April 30, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, April 30, 2022	\$ 3,198,617	\$ 3,745,255	\$ 6,943,872
Investment returns			
Interest and dividends	-	81,732	81,732
Realized and unrealized losses on investments, net	<u>-</u>	<u>(43,093)</u>	<u>(43,093)</u>
Balance, April 30, 2023	<u>\$ 3,198,617</u>	<u>\$ 3,783,894</u>	<u>\$ 6,982,511</u>

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

12. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended April 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, April 30, 2021	\$ 2,933,913	\$ 4,032,170	\$ 6,966,083
Investment returns			
Interest and dividends	-	91,511	91,511
Realized and unrealized losses on investments, net	<u>-</u>	<u>(378,426)</u>	<u>(378,426)</u>
Total investment return	-	(286,915)	(286,915)
Contributions	<u>264,704</u>	<u>-</u>	<u>264,704</u>
Balance, April 30, 2022	<u><u>\$ 3,198,617</u></u>	<u><u>\$ 3,745,255</u></u>	<u><u>\$ 6,943,872</u></u>

13. LEASES

Pets In Need has various operating lease agreements for equipment and office space in California. The leases require monthly payments ranging from approximately \$292 to \$5,370 and expiring at various dates through 2026.

Additional information related to leases is as follows

Operating lease cost	\$ 79,523
Operating lease right-of-use assets	\$ 126,752
Operating lease liabilities	\$ 123,527
Weighted average remaining lease term	2 years
Weighted average discount rate	3.65 %

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

13. LEASES (continued)

Future minimum lease payments under non-cancellable leases as of April 30, 2023 were as follows:

<u>Year ending April 30,</u>	
2024	\$ 82,837
2025	39,877
2026	<u>4,564</u>
	127,278
Less: debt discount	<u>(3,751)</u>
	<u><u>\$ 123,527</u></u>

Future minimum lease payments related to leases as of April 30, 2022, before the adoption (ASU) No. 2016-02, Leases (Topic 842) were as follows:

<u>Year ending April 30,</u>	
2024	\$ 66,191
2025	64,440
2026	<u>21,480</u>
	<u><u>\$ 152,111</u></u>

14. 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, contributions and grants receivable 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 years ending April 30, 2023 and 2022.

Pets In Need
Notes to Financial Statements
April 30, 2023
(With Comparative Totals for 2022)

14. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes assets that are available within one year of April 30, 2023 and April 30, 2022 to fund general expenditures and other obligations when they become due:

	<u>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	\$ 1,052,773	\$ 682,644
Investments	7,134,772	10,380,845
Other receivables	117,263	168,072
Contributions and grants receivable	<u>1,924,272</u>	<u>104,909</u>
	<u>10,229,080</u>	<u>11,336,470</u>
Less: amounts unavailable for general expenditures within one year, due to:		
Held in perpetuity	(1,938,624)	(1,938,624)
Unappropriated endowment earnings	(1,845,270)	(1,806,631)
Board designated quasi-endowment	(3,198,617)	(3,198,617)
Purpose restricted projects	(274,177)	(207,230)
Compensating balance on note payable	<u>-</u>	<u>(123,178)</u>
	<u>(7,256,688)</u>	<u>(7,274,280)</u>
	<u>\$ 2,972,392</u>	<u>\$ 4,062,190</u>

Financial assets available to meet cash needs for general expenditures within one year at April 30, 2023 and 2022 were \$2,972,392 and \$4,062,190, respectively. In addition, the board designated quasi-endowment fund could be made available if needed.

The Organization has financial assets available at April 30, 2023 and 2022 to cover approximately 175 and 240 days, respectively, of operating expenses based on the Organization's operating expenses for the years ending April 30, 2024 and 2023.

15. SUBSEQUENT EVENT

The Organization signed a term sheet with the City of Palo Alto and expected to have the final contract completed by March 2024. The term sheet authorizes PIN to bill for an additional \$55,535 per month from June 2023 to March 2024, at which point the new contract will be completed and reflect the higher fee.