

PETFINDER FOUNDATION

AUDITED FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018



JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

PETFINDER FOUNDATION
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Years ended December 31, 2019 and 2018

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JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Petfinder Foundation
Tucson, Arizona

I have audited the accompanying financial statements of Petfinder Foundation (an Arizona nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 State 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 of material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Petfinder Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jennifer J. Phillips, CPA, PLLC

JENNIFER J. PHILLIPS, CPA, PLLC
Tucson, Arizona

February 19, 2020

PETFINDER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,822,704 | \$ 1,400,515 |
| Operating investments - Note 4 | 621,466 | 556,424 |
| Unconditional promises to give - Note 5 | 1,660 | 329,057 |
| Prepaid expenses | 2,278 | 10,864 |
| Computer equipment, net of accumulated depreciation of \$2,328 and \$2,775, respectively | 146 | 395 |
| | \$ 2,448,254 | \$ 2,297,255 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities - | | |
| Accounts payable and accrued expenses | \$ 3,459 | \$ 2,146 |
| Net assets: | | |
| Without donor restrictions: | | |
| Available for operations | 1,737,637 | 1,340,189 |
| Board designated reserves - Note 3 | 651,253 | 562,467 |
| Invested in computer equipment | 146 | 395 |
| | 2,389,036 | 1,903,051 |
| With donor restrictions: | | |
| Purpose restrictions - Note 10 | 54,099 | 63,001 |
| Time restrictions - Note 10 | 1,660 | 329,057 |
| | 55,759 | 392,058 |
| | 2,444,795 | 2,295,109 |
| | \$ 2,448,254 | \$ 2,297,255 |

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2019

| | <u>Without donor restrictions</u> | <u>With donor restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| Public support and revenues: | | | |
| Contributions and bequests | \$ 731,585 | \$ 97,105 | \$ 828,690 |
| Donated materials - Note 6 | 33,684 | - | 33,684 |
| Net investment return | 88,949 | - | 88,949 |
| Loss on liquidation of equity investment | - | - | - |
| | <u>854,218</u> | <u>97,105</u> | <u>951,323</u> |
| Releases from restrictions | <u>433,404</u> | <u>(433,404)</u> | <u>-</u> |
| Total public support and revenues | 1,287,622 | (336,299) | 951,323 |
| Expenses: | | | |
| Program services | 700,104 | - | 700,104 |
| Management and general | 22,563 | - | 22,563 |
| Fundraising | 78,970 | - | 78,970 |
| Total expenses | <u>801,637</u> | <u>-</u> | <u>801,637</u> |
| Change in net assets | 485,985 | (336,299) | 149,686 |
| Net assets, beginning of year | <u>1,903,051</u> | <u>392,058</u> | <u>2,295,109</u> |
| Net assets, end of year | <u>\$ 2,389,036</u> | <u>\$ 55,759</u> | <u>\$ 2,444,795</u> |

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2018

| | <u>Without donor restrictions</u> | <u>With donor restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| Public support and revenues: | | | |
| Contributions and bequests | \$ 781,159 | \$ 414,427 | \$ 1,195,586 |
| Donated materials - Note 6 | 37,908 | - | 37,908 |
| Net investment return | (34,944) | - | (34,944) |
| Loss on liquidation of equity investment | (836) | - | (836) |
| | <u>783,287</u> | <u>414,427</u> | <u>1,197,714</u> |
| Releases from restrictions | <u>109,549</u> | <u>(109,549)</u> | <u>-</u> |
| Total public support and revenues | 892,836 | 304,878 | 1,197,714 |
| Expenses: | | | |
| Program services | 809,902 | - | 809,902 |
| Management and general | 18,706 | - | 18,706 |
| Fundraising | 79,780 | - | 79,780 |
| Total expenses | <u>908,388</u> | <u>-</u> | <u>908,388</u> |
| Change in net assets | (15,552) | 304,878 | 289,326 |
| Net assets, beginning of year | <u>1,918,603</u> | <u>87,180</u> | <u>2,005,783</u> |
| Net assets, end of year | <u>\$ 1,903,051</u> | <u>\$ 392,058</u> | <u>\$ 2,295,109</u> |

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2019

| | Program services | | | | Management and Fundraising | | |
|--------------------|-------------------------|------------------------|----------------------|-------------------|-----------------------------------|--------------------|-------------------|
| | Quality of life | Disaster relief | Sponsor a pet | Total | general | Fundraising | Total |
| Salaries/wages | \$ 112,289 | \$ 4,367 | \$ 8,110 | \$ 124,766 | \$ 15,816 | \$ 64,666 | \$ 205,248 |
| Payroll taxes | 9,255 | 206 | 823 | 10,284 | 1,370 | 5,484 | 17,138 |
| | <u>121,544</u> | <u>4,573</u> | <u>8,933</u> | <u>135,050</u> | <u>17,186</u> | <u>70,150</u> | <u>222,386</u> |
| Bank fees | 8,534 | - | - | 8,534 | 610 | 3,048 | 12,192 |
| Depreciation | 112 | - | - | 112 | 100 | 37 | 249 |
| Dues/registrations | 11,193 | - | - | 11,193 | 1,017 | 509 | 12,719 |
| Grants/allocations | 394,557 | 15,900 | 86,570 | 497,027 | - | - | 497,027 |
| Insurance | 699 | - | - | 699 | 1,515 | 117 | 2,331 |
| Legal fees | 571 | - | - | 571 | - | - | 571 |
| Other expenses | 3,930 | - | - | 3,930 | 281 | 1,404 | 5,615 |
| Postage/printing | 1,682 | - | - | 1,682 | 36 | 53 | 1,771 |
| Professional fees | 27,655 | - | - | 27,655 | 1,537 | 1,536 | 30,728 |
| Telephone | 5,055 | - | - | 5,055 | 281 | 281 | 5,617 |
| Travel/meetings | 1,254 | - | - | 1,254 | - | - | 1,254 |
| Website | 7,342 | - | - | 7,342 | - | 1,835 | 9,177 |
| | <u>\$ 584,128</u> | <u>\$ 20,473</u> | <u>\$ 95,503</u> | <u>\$ 700,104</u> | <u>\$ 22,563</u> | <u>\$ 78,970</u> | <u>\$ 801,637</u> |

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

| | Program services | | | | Management and Fundraising | | |
|--------------------|-------------------------|------------------------|----------------------|-------------------|-----------------------------------|--------------------|-------------------|
| | Quality of life | Disaster relief | Sponsor a pet | Total | general | Fundraising | Total |
| Salaries/wages | \$ 112,788 | \$ 4,386 | \$ 8,146 | \$ 125,320 | \$ 11,863 | \$ 62,566 | \$ 199,749 |
| Payroll taxes | 9,424 | 209 | 838 | 10,471 | 991 | 5,227 | 16,689 |
| | <u>122,212</u> | <u>4,595</u> | <u>8,984</u> | <u>135,791</u> | <u>12,854</u> | <u>67,793</u> | <u>216,438</u> |
| Bank fees | 11,371 | - | - | 11,371 | 813 | 4,061 | 16,245 |
| Depreciation | 169 | - | - | 169 | 150 | 56 | 375 |
| Dues/registrations | 9,775 | - | - | 9,775 | 930 | 465 | 11,170 |
| Grants/allocations | 512,525 | 28,250 | 49,635 | 590,410 | - | - | 590,410 |
| Insurance | 626 | - | - | 626 | 1,358 | 104 | 2,088 |
| Legal fees | 10,153 | - | - | 10,153 | 534 | - | 10,687 |
| Other expenses | 6,625 | - | - | 6,625 | 473 | 2,366 | 9,464 |
| Postage/printing | 1,304 | - | - | 1,304 | 27 | 41 | 1,372 |
| Professional fees | 23,022 | - | - | 23,022 | 1,279 | 1,279 | 25,580 |
| Telephone | 5,062 | - | - | 5,062 | 282 | 281 | 5,625 |
| Travel/meetings | 2,235 | - | - | 2,235 | - | - | 2,235 |
| Website | 13,359 | - | - | 13,359 | 6 | 3,334 | 16,699 |
| | <u>\$ 718,438</u> | <u>\$ 32,845</u> | <u>\$ 58,619</u> | <u>\$ 809,902</u> | <u>\$ 18,706</u> | <u>\$ 79,780</u> | <u>\$ 908,388</u> |

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 149,686 | \$ 289,326 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Loss on liquidation of equity investment | - | 836 |
| Realized and unrealized (gains) losses on operating investments | (74,415) | 51,645 |
| Depreciation | 249 | 375 |
| (Increase) decrease in operating assets: | | |
| Unconditional promises to give | 327,397 | (321,979) |
| Prepaid expenses | 8,586 | (9,935) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 1,313 | (497) |
| Net cash provided by operating activities | 412,816 | 9,771 |
| Cash flows from investing activities: | | |
| Purchases of operating investments | (209,006) | (99,000) |
| Proceeds from sale of operating investments | 218,379 | 82,839 |
| Distribution from equity investment | - | 140,902 |
| Net cash provided by investing activities | 9,373 | 124,741 |
| Net change in cash and cash equivalents | 422,189 | 134,512 |
| Cash and cash equivalents, beginning of year | 1,400,515 | 1,266,003 |
| Cash and cash equivalents, end of year | \$ 1,822,704 | \$ 1,400,515 |

Supplemental cash flow information

No cash paid for interest or income taxes in 2019 or 2018.

See Accompanying Notes.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – Organization and purpose

Petfinder Foundation (Foundation) is an Arizona nonprofit corporation, incorporated in 2003 to support the adoption organization members of Petfinder.com. Petfinder.com is the largest database of homeless pets on the Internet, with hundreds of thousands of adoptable pets listed on the site by more than 12,000 animal welfare organizations. Petfinder.com is owned by Nestlé Purina PetCare Company (Purina). Accordingly, Petfinder.com and Purina are considered related parties.

The Foundation helps homeless pets by saving lives through adoptions, helping shelters prepare for and recover from disaster and working to make sure animal welfare organizations across the country are more sustainable. The Foundation provides grants of equipment, supplies and funds so that thousands of homeless pets have healthier, happier lives and thousands of shelter and rescue staff and volunteers can do their jobs better. Petfinder.com member shelters are animal shelters who have met the criteria set by Petfinder.com and are the beneficiaries of various grants. The Foundation administers the following programs:

Quality of life programs – The Foundation believes that by helping to improve the quality of life for pets while they are in shelters or with a rescue group, they will be happier, healthier and more adoptable. Grants in this category include enrichment products, training, pet food, vaccines, sheltering, and general operating grants.

Orvis Animal Care Grants: Through a matching donation from the Orvis Company, the Foundation was able to provide general animal care grants to help support shelter and rescue group's dog adoption efforts in a positive way.

Dog Enrichment Grants: The Foundation is working with KONG to provide enrichment toys and products to shelters and adopters across the country. The KONG Company joins the Foundation in the belief that by providing enrichment toys to shelter pets, you stimulate their mind, making them more adoptable.

Cat Enrichment Grants: Grant funds from this program are used to provide enrichment for cats, which can include indoor entertainment using products and objects, allowing cats to enjoy the outdoors safely or human interactive cat-enrichment activities.

Adoption Options in Action Grants: This grant is available to Petfinder members who attended an Adoption Options conference and need financial assistance in order to implement the programs or practices presented at the conference, which are focused around the placement, promotion and behavior of homeless pets.

Emergency Medical Grants: This program is to assist Petfinder.com members who are caring for a pet that needs special veterinary care in order to become adoptable. Grants from this program can be used to cover expenses that fall outside of normal day to day vet services like spay/neuter, vaccines or routine exams, such as emergency surgery, dental work, etc. for one single pet.

Play Yard Renovation Grants: Play Yard Renovation Grants are awarded to shelters that have completed or are scheduled to complete play-group training seminars conducted by Dogs Playing for Life (DPFL). Grant funds must be used to construct or improve play yards to bring them into compliance with DPFL's recommendations. This grant program is part of the Foundation's commitment to enhancing shelter dogs' quality of life by allowing them to engage in natural social behaviors.

Play Group Training Grants: Play Group Training Grants are awarded to shelters to cover the cost of attending a Mentorship program conducted by DPFL. DPFL Mentorship programs help teach shelter personnel and volunteers DPFL methods for conducting safe and productive dog play

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2019 and 2018

NOTE 1 – Organization and purpose – continued

groups. The program also helps attendees advance their skills as handlers and trainers, with a better understanding of canine behavior so that they can enhance quality of life for the animals as well as save more lives. Grant funds must be used to cover the tuition cost of attending a DPFL Mentorship session.

P.L.A.Y. Pet Bed Grants: The Foundation has partnered with Pet Lifestyle and You (P.L.A.Y.) through the Warm Bellies Initiative to give luxury beds to shelter pets.

Senior Dogs Grants: Senior Dogs grants are intended to help facilitate the adoption of senior dogs in the care of Petfinder-member shelters and rescue groups. Grants of up to \$1,000 may be used to promote the adoption of a specific dog by funding one or more of the following: The dog's adoption fee; transportation to an approved adopter, and/or necessary medication for the duration of the dog's lifetime.

Disaster relief program – The Foundation is committed to assisting animal adoption organizations with disaster relief and recovery. Funds are used to offer animal-related resources and assistance during and after significant natural or man-made disasters. The Foundation awards grants to provide emergency equipment or supplies, physical improvements to the animal shelters and property, animal transport and housing equipment allocated for use in the event of a disaster, file and records management systems, and training for staff and/or volunteers who are critical responders for the organization during an emergency.

Other programs – The Foundation works with its corporate partners and funders to offer needed in-kind supplies or educational tools to Petfinder.com members, as well as grants in the forms of providing assistance for daily operations and care of pets and promoting adoption and transportation needs. Additional grants awarded are:

Sponsor A Pet: The Sponsor A Pet program encourages Petfinder.com visitors to help homeless pets by sponsoring the cost of their shelter and care until they find a forever home. When someone has found a homeless pet that has touched their heart, but they are unable to provide that pet their forever home this program gives them a way to help. Donations are collected by the Foundation and kept for the designated shelter. Once a quarter, these donations are distributed to the shelter, less 10 percent for administrative fees.

Purina New Year, New Home Adoption Grants: The Foundation and Purina are working together to get more pets adopted. The Purina New Year, New Home Pet Adoption Grant program grants are used to help subsidize pet adoptions via waived or reduced adoption fees.

NOTE 2 – Summary of significant accounting policies

Cash and cash equivalents

The Foundation considers all cash and highly liquid investments with an original maturity of three months or less which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Investments in marketable securities

The Foundation carries investments in marketable securities with readily determinable fair values at their fair values on the statements of financial position. Net investment income/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2019 and 2018

NOTE 2 – Summary of significant accounting policies – continued

Promises to give

The Foundation records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Foundation determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

All receivables are due within one year. Management believes that all receivables are collectible, and, accordingly, has recorded no allowance for uncollectible amounts. These amounts contain no collateral provisions for collection.

Property and equipment

Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, from 3 to 5 years. The Foundation capitalizes all expenditures of equipment in excess of \$2,500 with a useful life of more than one year.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Foundation has determined that there were no indicators of asset impairment during the years ended December 31, 2019 and 2018.

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for operating reserves.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2019 and 2018

NOTE 2 – Summary of significant accounting policies – continued

Revenue and revenue recognition

The Foundation recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although the Foundation uses the services of volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Functional allocation of expenses

The Board of Directors has approved a plan to allocate costs to various programs, grants, contracts, agreements and functions.

The general approach of the plan follows:

- All allowable direct costs are charged to programs, grants, activities and functions;
- Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base more appropriate to the particular cost being prorated;
- All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated using a base that results in an equitable distribution.

Income tax status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, the Foundation 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)(1).

Management of the Foundation considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to the organization's status as a not-for-profit entity. Management believes that the Foundation met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax, therefore, no provision for income taxes has been provided in these financial statements. Accordingly, the Foundation has not filed an *Exempt Organization Business Income Tax Return* (Form 990-T) with the Internal Revenue Service (IRS) for the year ended December 31, 2019.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2019 and 2018

NOTE 2 – Summary of significant accounting policies – continued

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value measurements

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset or liability. A fair value hierarchy distinguishes between market participant assumptions and the Institute's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are Institute's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. They include quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates or yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. These inputs reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

Financial instruments and credit risk

The Foundation manages deposit concentration risk by placing cash and cash equivalents with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Foundation has not experienced losses in any of these accounts. Uninsured cash at December 31, 2019 totaled \$1,534,536.

Investments are made by diversified investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Board of Directors believes that the investment policies and

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2019 and 2018

NOTE 2 – Summary of significant accounting policies – continued

guidelines are prudent for the long-term welfare of the organization. Investment are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that such changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Credit risk associated with unconditional promises to give is considered to be limited due to high historical collection rates; however, there is a potential credit risk and accounting loss that could occur if all parties to the receivables fail to perform their obligations for the stated amounts.

NOTE 3 – Liquidity and availability

Financial assets available for general expenditure (without donor or other restrictions limiting their use) within one year of the statement of financial position date comprise the following:

| | 2019 | 2018 |
|-----------------------------------|--------------|--------------|
| Cash and cash equivalents | \$ 1,768,606 | \$ 1,337,514 |
| Operating investments | 621,466 | 556,424 |
| | 2,390,072 | 1,893,938 |
| Less: board designated net assets | (651,253) | (562,467) |
| | \$ 1,738,819 | \$ 1,331,471 |

As part of the Foundation’s liquidity management plan, cash in excess of annual operating requirements is invested in marketable securities.

In order to ensure the stability of the mission, programs, employment and ongoing operations of the organization, the Board of Directors has approved an operating reserve (Reserve) policy. The Reserve provides an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, and unanticipated loss in funding or uninsured losses. The Reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. The Reserve is not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of the Foundation for the Reserve to be used and replenished within a reasonably short period of time. The Board of Directors designates a minimum amount sufficient to maintain ongoing operations and programs measured as six months of average operating costs. The Reserve is dynamic and will be reviewed and adjusted in response to both internal and external changes by majority vote of the Board of Directors. The Reserve was \$651,253 and \$562,467 at December 31, 2019 and 2018, respectively, held in the Foundation’s investment brokerage account. See Note 4.

NOTE 4 – Fair value measurements

Operating investments at December 31, 2019 and 2018 consisted of the following:

| | Level 1 | |
|-----------------------|------------|------------|
| | 2019 | 2018 |
| Exchange-traded funds | \$ 588,927 | \$ 428,951 |
| Equity funds | 5,967 | 38,373 |
| Mutual funds | 26,572 | 89,100 |
| | \$ 621,466 | \$ 556,424 |

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2019 and 2018

NOTE 4 – Fair value measurements – continued

The fair value of these investments is based on quoted market prices in an active market (Level 1 inputs) on a recurring basis. There were no changes in valuation techniques during the years ended December 31, 2019 and 2018. Determinations of transfers between levels are made on an annual basis at year-end. There were no transfers between levels for the years ended December 31, 2019 and 2018.

NOTE 5 – Bequests receivable

During the year ended December 31, 2018, the Foundation received notification that they had been named the beneficiary of a bequest of cash and cash equivalents. As the amounts to be received were probable and estimable, they are included in unconditional promises to give as of December 31, 2018 in the amount of \$308,342. This amount was received during the year ended December 31, 2019.

NOTE 6 – Donated materials

The Foundation received donated materials with a fair market value of \$33,684 and \$37,908 during the years ended December 31, 2019 and 2018, respectively. These donated materials are included in grants and allocations on the statements of functional expenses.

NOTE 7 – Related party transactions/concentration

The Foundation received \$201,445 and \$290,988 from Purina during the years ended December 31, 2019 and 2018, respectively. Under a two-year sponsorship agreement dated December 11, 2018, Purina has agreed to donate a minimum of \$100,000 annually to the Foundation, if certain conditions are met.

NOTE 8 – Subsequent events

Subsequent events have been evaluated through February 19, 2020, which is the date the financial statements were available to be issued.

NOTE 9 – Change in accounting principle

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Foundation has implemented Topic 606, and there has been no change in the presentation in these financial statements.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis, resulting in no changes. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2019 and 2018

NOTE 10 – Net assets with donor restrictions

Net assets with donor restrictions was as follows for the year ended December 31, 2019:

| | Beginning balance | Contributions and other revenue | Releases | Ending balance |
|--------------------------------|----------------------|---------------------------------------|---------------------|-------------------|
| Specified purpose: | | | | |
| Customer service | \$ - | \$ - | \$ - | \$ - |
| Disaster relief | 31,539 | - | (15,900) | 15,639 |
| Hide, Perch & Go | - | - | - | - |
| Kuranda beds | - | - | - | - |
| Purina animal shelter fund | - | - | - | - |
| Shelter a Pet | 30,912 | 93,565 | (86,628) | 37,849 |
| Feline enrichment | 550 | 1,880 | (1,819) | 611 |
| | <u>63,001</u> | <u>95,445</u> | <u>(104,347)</u> | <u>54,099</u> |
| Passage of time: | | | | |
| Unconditional promises to give | <u>329,057</u> | <u>1,660</u> | <u>(329,057)</u> | <u>1,660</u> |
| | <u>\$ 392,058</u> | <u>\$ 97,105</u> | <u>\$ (433,404)</u> | <u>\$ 55,759</u> |

Net assets with donor restrictions was as follows for the year ended December 31, 2018:

| | Beginning balance | Contributions and other revenue | Releases | Ending balance |
|--------------------------------|----------------------|---------------------------------------|---------------------|-------------------|
| Specified purpose: | | | | |
| Customer service | \$ 12,043 | \$ - | \$ (12,043) | \$ - |
| Disaster relief | 23,713 | 36,077 | (28,251) | 31,539 |
| Hide, Perch & Go | 22 | - | (22) | - |
| Kuranda beds | 396 | - | (396) | - |
| Purina animal shelter fund | 1,959 | - | (1,959) | - |
| Shelter a Pet | 34,994 | 48,053 | (52,135) | 30,912 |
| Feline enrichment | 6,975 | 1,240 | (7,665) | 550 |
| | <u>80,102</u> | <u>85,370</u> | <u>(102,471)</u> | <u>63,001</u> |
| Passage of time: | | | | |
| Unconditional promises to give | <u>7,078</u> | <u>329,057</u> | <u>(7,078)</u> | <u>329,057</u> |
| | <u>\$ 87,180</u> | <u>\$ 414,427</u> | <u>\$ (109,549)</u> | <u>\$ 392,058</u> |