

PETFINDER FOUNDATION

AUDITED FINANCIAL STATEMENTS
Years ended December 31, 2022 and 2021



JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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Years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Petfinder Foundation
Tucson, Arizona

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Petfinder Foundation and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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 Petfinder Foundation'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

My 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 my 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, I:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Petfinder Foundation'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Petfinder Foundation's ability to continue as a going concern for a reasonable period of time.

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

Jennifer J. Phillips, CPA, PLLC

JENNIFER J. PHILLIPS, CPA, PLLC
Tucson, Arizona

March 14, 2023

PETFINDER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,996,934	\$ 1,834,321
Operating investments - Note 7	1,110,236	1,310,493
Unconditional promises to give receivable	53,972	80,879
Conditional grants made - Note 4	-	335,000
Prepaid expenses	10,587	1,874
Computer equipment, net of accumulated depreciation of \$1,243 and \$1,520, respectively	<u>-</u>	<u>-</u>
	<u>\$ 3,171,729</u>	<u>\$ 3,562,567</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,463	\$ 2,489
Refundable advances	<u>47,000</u>	<u>435,000</u>
	51,463	437,489
Net assets:		
Without donor restrictions:		
Available for operations	2,744,719	2,151,960
Board designated reserves - Note 3	<u>172,670</u>	<u>673,816</u>
	2,917,389	2,825,776
With donor restrictions:		
Purpose restrictions - Note 6	148,905	218,423
Time restrictions - Note 6	<u>53,972</u>	<u>80,879</u>
	202,877	299,302
	<u>3,120,266</u>	<u>3,125,078</u>
	<u>\$ 3,171,729</u>	<u>\$ 3,562,567</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenues:			
Contributions and bequests	\$ 1,547,982	\$ 170,028	\$ 1,718,010
Donated materials - Note 8	36,796	-	36,796
Net investment return	(197,873)	-	(197,873)
	<u>1,386,905</u>	<u>170,028</u>	<u>1,556,933</u>
Releases from restrictions	266,453	(266,453)	-
Total public support and revenues	<u>1,653,358</u>	<u>(96,425)</u>	<u>1,556,933</u>
Expenses:			
Program services	1,448,244	-	1,448,244
Management and general	26,556	-	26,556
Fundraising	86,945	-	86,945
Total expenses	<u>1,561,745</u>	<u>-</u>	<u>1,561,745</u>
Change in net assets	91,613	(96,425)	(4,812)
Net assets, beginning of year	<u>2,825,776</u>	<u>299,302</u>	<u>3,125,078</u>
Net assets, end of year	<u>\$ 2,917,389</u>	<u>\$ 202,877</u>	<u>\$ 3,120,266</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2021

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenues:			
Contributions and bequests	\$ 870,767	\$ 587,574	\$ 1,458,341
Donated materials - Note 8	37,901	-	37,901
Net investment return	107,635	-	107,635
	<u>1,016,303</u>	<u>587,574</u>	<u>1,603,877</u>
Releases from restrictions	506,836	(506,836)	-
Total public support and revenues	<u>1,523,139</u>	<u>80,738</u>	<u>1,603,877</u>
Expenses:			
Program services	1,226,277	-	1,226,277
Management and general	25,964	-	25,964
Fundraising	87,426	-	87,426
Total expenses	<u>1,339,667</u>	<u>-</u>	<u>1,339,667</u>
Change in net assets	183,472	80,738	264,210
Net assets, beginning of year	<u>2,642,304</u>	<u>218,564</u>	<u>2,860,868</u>
Net assets, end of year	<u>\$ 2,825,776</u>	<u>\$ 299,302</u>	<u>\$ 3,125,078</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2022

	<u>Program services</u>				<u>Management and</u>		<u>Total</u>
	<u>Quality of life</u>	<u>Disaster relief</u>	<u>Sponsor a pet</u>	<u>Total</u>	<u>general</u>	<u>Fundraising</u>	
Salaries/wages	\$ 129,501	\$ 5,036	\$ 9,353	\$ 143,890	\$ 18,776	\$ 72,551	\$ 235,217
Payroll taxes	10,054	223	894	11,171	1,465	5,677	18,313
	<u>139,555</u>	<u>5,259</u>	<u>10,247</u>	<u>155,061</u>	<u>20,241</u>	<u>78,228</u>	<u>253,530</u>
Bank fees	13,457	-	-	13,457	961	4,806	19,224
Dues/registrations	11,989	-	-	11,989	1,090	545	13,624
Grants/allocations	1,034,416	38,250	147,323	1,219,989	-	-	1,219,989
Insurance	974	-	-	974	2,112	162	3,248
Other expenses	3,347	-	-	3,347	239	1,195	4,781
Postage/printing	2,044	-	-	2,044	42	65	2,151
Professional fees	28,489	-	-	28,489	1,582	1,583	31,654
Telephone	5,219	-	-	5,219	289	290	5,798
Travel/meetings	559	-	-	559	-	-	559
Website	3,522	-	3,594	7,116	-	71	7,187
	<u>\$ 1,243,571</u>	<u>\$ 43,509</u>	<u>\$ 161,164</u>	<u>\$ 1,448,244</u>	<u>\$ 26,556</u>	<u>\$ 86,945</u>	<u>\$ 1,561,745</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2021

	<u>Program services</u>				<u>Management and</u>		<u>Total</u>
	<u>Quality of life</u>	<u>Disaster relief</u>	<u>Sponsor a pet</u>	<u>Total</u>	<u>general</u>	<u>Fundraising</u>	
Salaries/wages	\$ 122,051	\$ 4,746	\$ 8,815	\$ 135,612	\$ 17,693	\$ 68,425	\$ 221,730
Payroll taxes	9,477	211	842	10,530	1,381	5,351	17,262
	<u>131,528</u>	<u>4,957</u>	<u>9,657</u>	<u>146,142</u>	<u>19,074</u>	<u>73,776</u>	<u>238,992</u>
Bank fees	24,612	-	-	24,612	1,758	8,790	35,160
Dues/registrations	10,691	-	-	10,691	972	486	12,149
Grants/allocations	699,522	15,640	229,500	944,662	-	-	944,662
Insurance	782	-	-	782	1,695	130	2,607
Other expenses	4,186	-	-	4,186	446	1,495	6,127
Postage/printing	3,453	-	-	3,453	73	109	3,635
Professional fees	32,524	-	-	32,524	1,659	1,807	35,990
Telephone	5,171	-	-	5,171	287	287	5,745
Travel/meetings	42	-	-	42	-	-	42
Website	26,733	-	27,279	54,012	-	546	54,558
	<u>\$ 939,244</u>	<u>\$ 20,597</u>	<u>\$ 266,436</u>	<u>\$ 1,226,277</u>	<u>\$ 25,964</u>	<u>\$ 87,426</u>	<u>\$ 1,339,667</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (4,812)	\$ 264,210
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized (gains) losses on operating investments	216,426	(68,054)
(Increase) decrease in operating assets:		
Unconditional promises to give receivable	26,907	(78,529)
Conditional grants made	335,000	(335,000)
Prepaid expenses	(8,713)	7,367
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,974	1,323
Refundable advances	(388,000)	435,000
Net cash provided by operating activities	178,782	226,317
 Cash flows from investing activities:		
Purchases of operating investments	(254,500)	(549,601)
Proceeds from sale of operating investments	238,331	14,525
Net cash (used in) investing activities	(16,169)	(535,076)
 Net change in cash and cash equivalents	162,613	(308,759)
 Cash and cash equivalents, beginning of year	1,834,321	2,143,080
 Cash and cash equivalents, end of year	\$ 1,996,934	\$ 1,834,321

Supplemental cash flow information

No cash paid for interest or income taxes in 2022 or 2021.

See Accompanying Notes.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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.

KONG 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.

Dog Short-Term Foster/Fieldtrip Grants: This grant program provides funding to purchase needed supplies for a shelter's short-term foster/dog field-trip program, including but not limited to: collars, leashes, harnesses, gentle leaders, collapsible or portable water/food bowls, potty bags and "Adopt Me" vests.

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.

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.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2022 and 2021

NOTE 1 – Organization and purpose – continued

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 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 Pet Grants: Senior Pet grants are intended to help facilitate the adoption of senior pets 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 pet by funding one or more of the following: The pet's adoption fee; transportation to an approved adopter, and/or necessary medication for the duration of the pet's lifetime.

Bar Dog Operation Grants: Bar Dog Wines has committed to supporting rescue shelters across North America. Through this partnership, this grant program supports animal adoption groups and their day-to-day operations.

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.

Kia Adoption Grants: The Capital Improvement Grant program provides funds to repair or improve existing shelter facilities in ways that would increase adoptable pets' quality of life and adoption rates. Example of projects funded were repairing or installing HVAC systems to ensure comfortable temperatures for sheltered animals, setting up a meet and greet room for adopters and pets, purchasing materials to cover outdoor kennels to protect dogs from the elements, and more.

REDI Training and Implementation Grants: In partnership with Companions and Animals for Reform and Equity (CARE), the Foundation provides Petfinder members with access to an online Racial Equity, Diversity, and Inclusion (REDI) training program specifically created for animal shelters and rescue groups and hosted by Maddie's University. The REDI Training grant was created to help animal-adoption organizations recognize and overcome biases and barriers that can prevent people of color, low-income individuals, and senior citizens from adopting.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2022 and 2021

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. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition. The Foundation had no restricted cash as of either December 31, 2022 or 2021.

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.

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 as of either December 31, 2022 or 2021.

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.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2022 and 2021

NOTE 2 – Summary of significant accounting policies – continued

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.

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.

A portion of the Foundation's revenue is derived from grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received prior to incurring qualifying expenses are reported as refundable advances on the statements of financial position.

In-kind contributions

Contributed nonfinancial assets include donated professional services, donated supplies, and other in-kind contributions which are recorded at the respective fair values of the goods or services received (Note 8). The Foundation does not sell donated gifts-in-kind. Contributed goods are recorded at fair value at the date of donation.

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.

The Foundation's volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by 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;

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2022 and 2021

NOTE 2 – Summary of significant accounting policies – continued

- 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 either of the years ended December 31, 2022 or 2021.

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.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2022 and 2021

NOTE 2 – Summary of significant accounting policies – continued

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, 2022 totaled \$1,723,654.

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 guidelines are prudent for the long-term welfare of the organization. Investments 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 statements 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 at December 31:

	2022	2021
Cash and cash equivalents	\$ 1,848,029	\$ 1,615,598
Operating investments	<u>1,110,236</u>	<u>1,310,493</u>
	2,958,265	2,926,091
Less: board designated net assets	<u>(172,670)</u>	<u>(673,816)</u>
	<u>\$ 2,785,595</u>	<u>\$ 2,252,275</u>

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

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NOTE 3 – Liquidity and availability – continued

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 \$172,670 and \$673,816 at December 31, 2022 and 2021, respectively, held in the Foundation's investment brokerage account. See Note 7.

NOTE 4 – Conditional grants

In November 2021, the Foundation received a \$435,000 conditional grant to be spent on racial equity and diversity trainings for shelters. From this funding source, the Foundation made grants in the amount of \$335,000 to various shelters prior to December 31, 2021, conditioned upon them completing the training. The related trainings were completed during the year ended December 31, 2022.

NOTE 5 – Bequest receivable

During the year ended December 31, 2021, the Foundation received notification that they had been named the beneficiary of a bequest of cash and cash equivalents. As the amount to be received was probable and estimable, it was included in unconditional promises to give as of December 31, 2021 in the amount of \$75,000. Payment was received during the year ended December 31, 2022.

NOTE 6 – Net assets with donor restrictions

Net assets with donor restrictions were as follows for the year ended December 31, 2022:

	Beginning balance	Contributions and other revenue	Releases	Ending balance
Specified purpose:				
Disaster relief	\$ 17,382	\$ 23,715	\$ (38,250)	\$ 2,847
Shelter a Pet	201,041	92,341	(147,324)	146,058
	<u>218,423</u>	<u>116,056</u>	<u>(185,574)</u>	<u>148,905</u>
Passage of time:				
Unconditional promises to give	<u>80,879</u>	<u>53,972</u>	<u>(80,879)</u>	<u>53,972</u>
	<u>\$ 299,302</u>	<u>\$ 170,028</u>	<u>\$ (266,453)</u>	<u>\$ 202,877</u>

Net assets with donor restrictions were as follows for the year ended December 31, 2021:

	Beginning balance	Contributions and other revenue	Releases	Ending balance
Specified purpose:				
Disaster relief	\$ 20,193	\$ 98,799	\$ (101,610)	\$ 17,382
Shelter a Pet	196,021	407,896	(402,876)	201,041
	<u>216,214</u>	<u>506,695</u>	<u>(504,486)</u>	<u>218,423</u>
Passage of time:				
Unconditional promises to give	<u>2,350</u>	<u>80,879</u>	<u>(2,350)</u>	<u>80,879</u>
	<u>\$ 218,564</u>	<u>\$ 587,574</u>	<u>\$ (506,836)</u>	<u>\$ 299,302</u>

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NOTE 7 – Fair value measurements

The fair value of 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, 2022 and 2021. Determinations of transfers between levels are made on an annual basis at year-end. There were no transfers between levels as of either December 31, 2022 or 2021.

Operating investments at December 31, 2022 and 2021 consisted of the following:

	Level 1	
	2022	2021
Exchange-traded funds	\$ 1,085,983	\$ 1,306,939
Equity funds	24,253	3,554
	\$ 1,110,236	\$ 1,310,493

NOTE 8 – In-kind contributions

The Foundation received donated pet supplies with a fair market value of \$36,796 and \$37,901 during the years ended December 31, 2022 and 2021, respectively. Contributed pet supplies are valued using estimated U.S. wholesale prices (principal market) of identical or similar products using pricing data under a “like-kind” methodology considering the goods’ condition and utility for use at the time of the contribution. These supplies are used in program services, included in grants and allocations on the statements of functional expenses.

NOTE 9 – Related party transactions/concentration

The Foundation received \$50,000 and \$104,250 from Purina during the years ended December 31, 2022 and 2021, respectively. Under a sponsorship agreement expiring December 31, 2024, Purina has agreed to donate \$75,000 to the Foundation during both of the years ended December 31, 2023 and 2024, if certain conditions are met.

NOTE 10 – Subsequent events

Management has evaluated subsequent events through March 14, 2023 which is the date the financial statements were available to be issued.

NOTE 11 – Recently adopted accounting standard

During the year ended December 31, 2022, the Foundation adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The Foundation had no such leases.