

PETFINDER FOUNDATION

AUDITED FINANCIAL STATEMENTS
Year ended December 31, 2014



JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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AUDITED FINANCIAL STATEMENTS
Year ended December 31, 2014

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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 statement of financial position as of December 31, 2014 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United 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 audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 a 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, 2014, and the changes in its net assets and its cash flows for the year 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

March 9, 2015

PETFINDER FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2014

ASSETS

Cash and cash equivalents	\$ 1,596,607
Unconditional promises to give	53,619
Prepaid expenses	2,863
Equity investment - Note 3	223,149
Property and equipment - Note 4	<u>2,511</u>
	<u>\$ 1,878,749</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 1,443
Grants payable	10,693
Custodial liabilities - Note 5	<u>7,500</u>
	19,636
Net assets:	
Unrestricted:	
Expended for property and equipment	2,511
Available for operations	<u>1,503,415</u>
	1,505,926
Temporarily restricted - Note 6	<u>353,187</u>
	<u>1,859,113</u>
	<u>\$ 1,878,749</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>
Public support and revenues:			
Contributions and donations	\$ 764,132	\$ 159,230	\$ 923,362
Donated materials - Note 7	435,839	-	435,839
Interest income	358	-	358
Gain on equity investment	8,845	-	8,845
	<u>1,209,174</u>	<u>159,230</u>	<u>1,368,404</u>
Releases from restrictions	227,093	(227,093)	-
Total public support and revenues	<u>1,436,267</u>	<u>(67,863)</u>	<u>1,368,404</u>
Expenses:			
Program services	1,193,501	-	1,193,501
Management and general	51,037	-	51,037
Fundraising	70,533	-	70,533
Total expenses	<u>1,315,071</u>	<u>-</u>	<u>1,315,071</u>
Change in net assets	121,196	(67,863)	53,333
Net assets, beginning of year	<u>1,384,730</u>	<u>421,050</u>	<u>1,805,780</u>
Net assets, end of year	<u>\$ 1,505,926</u>	<u>\$ 353,187</u>	<u>\$ 1,859,113</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2014

	<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 and wages	\$ 112,767	\$ 2,506	\$ 10,024	\$ 125,297	\$ 8,979	\$ 55,348	\$ 189,624
Payroll taxes	9,592	213	853	10,658	756	5,335	16,749
	<u>122,359</u>	<u>2,719</u>	<u>10,877</u>	<u>135,955</u>	<u>9,735</u>	<u>60,683</u>	<u>206,373</u>
Bank fees	-	-	-	-	13,160	-	13,160
Depreciation	2,451	-	-	2,451	3,953	1,502	7,906
Dues and registrations	8,825	-	-	8,825	2,522	1,262	12,609
Grants and allocations	397,514	31,025	110,334	538,873	-	-	538,873
Insurance	906	-	-	906	6,337	302	7,545
Legal fees	3,486	-	-	3,486	336	-	3,822
Other expenses	842	-	-	842	1,053	111	2,006
Postage and printing	2,677	-	-	2,677	233	-	2,910
Professional fees	43,069	-	-	43,069	4,111	2,711	49,891
Program supplies	436,069	-	-	436,069	-	-	436,069
Rent	4,080	-	-	4,080	5,099	1,021	10,200
Telephone	5,381	-	-	5,381	1,077	717	7,175
Travel and meetings	4,516	1,031	-	5,547	2,491	-	8,038
Utilities	1,214	-	-	1,214	243	161	1,618
Website	4,126	-	-	4,126	687	2,063	6,876
	<u>\$ 1,037,515</u>	<u>\$ 34,775</u>	<u>\$ 121,211</u>	<u>\$ 1,193,501</u>	<u>\$ 51,037</u>	<u>\$ 70,533</u>	<u>\$ 1,315,071</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2014

Cash flows from operating activities:	
Change in net assets	\$ 53,333
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Gain on equity investment	(8,845)
Depreciation	7,906
Vehicle granted to other non-profit	19,009
(Increase) decrease in operating assets:	
Unconditional promises to give	(30,180)
Shelter challenge receivable	223,000
Prepaid expenses	1,491
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(21,775)
Grants payable	10,693
Custodial liabilities	<u>7,500</u>
Net cash provided by operating activities	<u>262,132</u>
Cash and cash equivalents, beginning of year	<u>1,334,475</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,596,607</u></u>

No cash was paid for interest or income taxes in 2014.

See Accompanying Notes.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – Organization and purpose

Petfinder Foundation (Foundation) is an Arizona nonprofit corporation, incorporated in 2003 to support 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 14,000 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.

Cat Enrichment (Cat Castles): The transition from an original home to shelter life to an adoptive home brings many changes in sights, smells and surroundings, leaving cats fearful of each situation. The Cat Castle boxes when used at a shelter gives a cat control over her environment, allowing her to relax and become more adoptable. The box then follows the cat to her new home, giving her something familiar in her environment during the adjustment period.

Shot at Life Vaccination Grants: The Foundation works with Boehringer Ingelheim Vetmedica, Inc. to provide various vaccinations to adoption organizations. They join the Foundation in the belief that there is nothing more important than reducing the number of adoptable pets euthanized because of illness and decreasing the spread of illness at a facility by providing important vaccinations.

Orvis Animal Care Grants: The Foundation provides general animal care grants to help support shelter and rescue group's dog adoption efforts in a positive way.

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

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.

Rescue U – Rescue U sends volunteers during their vacation from school and work to shelters that are in need of renovation assistance as well as matches these volunteers with local shelters in need of community support. On the renovation projects, the volunteers work with the shelter and members of the community to fix up and build new kennels, cat houses and play areas,

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2014

NOTE 1 – Organization and purpose – continued

outdoor pens, bathing areas, and more. At the local chapter level, Rescue U Chapters focus on their own communities, getting together to help their local shelters with what they need, including fundraising, building shelter beds, walking dogs and much more. The Rescue U program helps volunteers bring an effective and positive change both locally and nationally to shelters and homeless pets.

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.

NOTE 2 – Summary of significant accounting policies

Financial statement presentation

Under generally accepted accounting principles, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

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.

Cash and cash equivalents

The Foundation considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. The Foundation maintains cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. At December 31, 2014, the Foundation had uninsured cash totaling \$1,370,918.

Unconditional promises to give (pledges receivable)

Pledges receivable are stated at the amount management expects to collect from outstanding balances. 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. 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.

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.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2014

NOTE 2 – Summary of significant accounting policies – continued

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 \$250 with a useful life of more than one year.

Contributions/restricted revenue

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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. The Foundation received \$227,500 in donated advertising during the year ended December 31, 2014 which did not meet the criteria for recognition.

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited

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. The Foundation's Form 990, *Return of Organization Exempt from Income Taxes*, and Arizona Form 99, *Arizona Exempt Organization Annual Information Return*, are generally subject to examination by the Internal Revenue Service for three years and the Arizona Department of Revenue for four years, respectively, after the date the returns were filed.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2014

NOTE 3 – Equity investment

The Foundation owns 50% of Olafson Gift, LLC, a limited liability company which holds real property. The Foundation's investment in the corporation, accounted for using the equity method, was \$223,149 at December 31, 2014.

NOTE 4 – Property and equipment

Property and equipment at December 31, 2014 consisted of the following:

Computer equipment	\$	3,115
Office furniture		1,713
		<u>4,828</u>
Less accumulated depreciation		<u>(2,317)</u>
	\$	<u><u>2,511</u></u>

NOTE 5 – Custodial liabilities

Custodial liabilities of \$7,500 at December 31, 2014 consisted of funds received for the Shelter Challenge program, for which the donor has specified a recipient organization, and for which the Foundation acts as an agent.

NOTE 6 – Temporarily restricted net assets

Temporarily restricted net asset activity was as follows for the year ended December 31, 2014:

	Beginning balance	Additions	Releases	Ending balance
Customer service	\$ 12,043	\$ -	\$ -	\$ 12,043
Disaster relief	201,974	-	(32,056)	169,918
Hide, Perch & Go	30,890	-	(28,468)	2,422
Kuranda beds	396	-	-	396
Purina animal shelter fund	5,459	-	-	5,459
Rescue U	94,639	-	(32,797)	61,842
Shelter a Pet	51,030	104,146	(110,333)	44,843
Feline enrichment	1,180	1,465	-	2,645
Unconditional promises to give	23,439	53,619	(23,439)	53,619
	<u>\$ 421,050</u>	<u>\$ 159,230</u>	<u>\$ (227,093)</u>	<u>\$ 353,187</u>

NOTE 7 – Donated materials

The Foundation received donated materials with a fair market value of \$435,839 during the year ended December 31, 2014. These donated materials are included in program supplies on the statement of functional expenses.

NOTE 8 – Related party transactions

During the year ended December 31, 2014, \$10,818 in legal fees were paid to a law firm owned by one of the board members. During the year ended December 31, 2014, the Foundation received \$117,500 from Purina.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2014

NOTE 9 – Operating leases

The Foundation leases office space under a non-cancelable operating lease expiring December 2015. Rent expense for the year ended December 31, 2014 was \$10,200. Future minimum lease payments for the year ended December 31, 2015 are \$9,350.

NOTE 10 – Subsequent events

Subsequent events have been evaluated through March 9, 2015, which is the date the financial statements were available to be issued.