

PETFINDER FOUNDATION

AUDITED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015



JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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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 statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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

March 7, 2017

PETFINDER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,194,871	\$ 1,708,934
Investments - Note 3	543,394	1,155
Unconditional promises to give	2,860	15,825
Prepaid expenses	1,619	3,037
Equity investment - Note 4	225,178	220,407
Computer equipment, net of accumulated depreciation of \$2,235 and \$2,436, respectively.	<u>1,312</u>	<u>1,922</u>
	<u>\$ 1,969,234</u>	<u>\$ 1,951,280</u>
LIABILITIES AND NET ASSETS		
Liabilities -		
Accounts payable and accrued expenses	\$ 1,387	\$ 6,033
Net assets:		
Unrestricted:		
Expended for property and equipment	1,312	1,922
Available for operations	<u>1,831,745</u>	<u>1,766,698</u>
	<u>1,833,057</u>	<u>1,768,620</u>
Temporarily restricted - Note 5	<u>134,790</u>	<u>176,627</u>
	<u>1,967,847</u>	<u>1,945,247</u>
	<u>\$ 1,969,234</u>	<u>\$ 1,951,280</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>
Public support and revenues:			
Contributions and donations	\$ 1,106,660	\$ 78,203	\$ 1,184,863
Donated materials - Note 6	90,344	-	90,344
Investment income - Note 3	48,881	-	48,881
Gain (loss) on equity investment	4,771	-	4,771
	<u>1,250,656</u>	<u>78,203</u>	<u>1,328,859</u>
Releases from restrictions	120,040	(120,040)	-
Total public support and revenues	<u>1,370,696</u>	<u>(41,837)</u>	<u>1,328,859</u>
Expenses:			
Program services	1,194,842	-	1,194,842
Management and general	31,756	-	31,756
Fundraising	79,661	-	79,661
Total expenses	<u>1,306,259</u>	<u>-</u>	<u>1,306,259</u>
Change in net assets	64,437	(41,837)	22,600
Net assets, beginning of year	<u>1,768,620</u>	<u>176,627</u>	<u>1,945,247</u>
Net assets, end of year	<u>\$ 1,833,057</u>	<u>\$ 134,790</u>	<u>\$ 1,967,847</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>
Public support and revenues:			
Contributions and donations	\$ 1,215,539	\$ 99,106	\$ 1,314,645
Donated materials - Note 6	55,816	-	55,816
Investment income - Note 3	383	-	383
Gain (loss) on equity investment	<u>(2,742)</u>	<u>-</u>	<u>(2,742)</u>
	1,268,996	99,106	1,368,102
Releases from restrictions	<u>275,666</u>	<u>(275,666)</u>	<u>-</u>
Total public support and revenues	<u>1,544,662</u>	<u>(176,560)</u>	<u>1,368,102</u>
Expenses:			
Program services	1,150,007	-	1,150,007
Management and general	50,622	-	50,622
Fundraising	<u>81,339</u>	<u>-</u>	<u>81,339</u>
Total expenses	<u>1,281,968</u>	<u>-</u>	<u>1,281,968</u>
Change in net assets	262,694	(176,560)	86,134
Net assets, beginning of year	<u>1,505,926</u>	<u>353,187</u>	<u>1,859,113</u>
Net assets, end of year	<u>\$ 1,768,620</u>	<u>\$ 176,627</u>	<u>\$ 1,945,247</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2016

	Program services				Management and Fundraising		
	Quality of life	Disaster relief	Sponsor a pet	Total	general	Fundraising	Total
Salaries and wages	\$ 97,342	\$ 3,785	\$ 7,030	\$ 108,157	\$ 14,817	\$ 68,275	\$ 191,249
Payroll taxes	8,092	180	719	8,991	1,308	6,049	16,348
	<u>105,434</u>	<u>3,965</u>	<u>7,749</u>	<u>117,148</u>	<u>16,125</u>	<u>74,324</u>	<u>207,597</u>
Bank fees	4,201	-	-	4,201	4,667	467	9,335
Depreciation	189	-	-	189	305	116	610
Dues and registrations	7,026	-	-	7,026	2,008	1,005	10,039
Grants and allocations	833,766	30,750	73,465	937,981	-	-	937,981
Insurance	470	-	-	470	3,293	157	3,920
Legal fees	2,675	-	-	2,675	265	-	2,940
Loss on disposal of furniture	-	-	-	-	-	-	-
Other expenses	481	-	-	481	601	63	1,145
Postage and printing	2,111	-	-	2,111	183	-	2,294
Professional fees	23,385	-	-	23,385	2,232	1,472	27,089
Program supplies	90,345	-	-	90,345	-	-	90,345
Rent	-	-	-	-	-	-	-
Telephone	4,181	-	-	4,181	837	557	5,575
Travel and meetings	1,648	-	-	1,648	740	-	2,388
Utilities	-	-	-	-	-	-	-
Website	3,001	-	-	3,001	500	1,500	5,001
	<u>\$ 1,078,913</u>	<u>\$ 34,715</u>	<u>\$ 81,214</u>	<u>\$ 1,194,842</u>	<u>\$ 31,756</u>	<u>\$ 79,661</u>	<u>\$ 1,306,259</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2015

	Program services				Management and Fundraising		
	Quality of life	Disaster relief	Sponsor a pet	Total	general	Fundraising	Total
Salaries and wages	\$ 92,291	\$ 3,589	\$ 6,665	\$ 102,545	\$ 14,209	\$ 67,537	\$ 184,291
Payroll taxes	7,954	177	707	8,838	1,285	5,945	16,068
	<u>100,245</u>	<u>3,766</u>	<u>7,372</u>	<u>111,383</u>	<u>15,494</u>	<u>73,482</u>	<u>200,359</u>
Bank fees	13,094	-	-	13,094	14,548	1,455	29,097
Depreciation	256	-	-	256	412	157	825
Dues and registrations	7,776	-	-	7,776	2,223	1,111	11,110
Grants and allocations	758,681	61,100	92,730	912,511	-	-	912,511
Insurance	661	-	-	661	4,629	220	5,510
Legal fees	939	-	-	939	93	-	1,032
Loss on disposal of furniture	312	-	-	312	504	191	1,007
Other expenses	1,050	-	-	1,050	1,312	138	2,500
Postage and printing	4,007	-	-	4,007	349	-	4,356
Professional fees	24,625	-	-	24,625	2,350	1,550	28,525
Program supplies	55,816	-	-	55,816	-	-	55,816
Rent	3,740	-	-	3,740	4,674	936	9,350
Telephone	4,951	-	-	4,951	991	660	6,602
Travel and meetings	4,408	1,031	-	5,439	2,442	-	7,881
Utilities	775	-	-	775	155	103	1,033
Website	2,672	-	-	2,672	446	1,336	4,454
	<u>\$ 984,008</u>	<u>\$ 65,897</u>	<u>\$ 100,102</u>	<u>\$ 1,150,007</u>	<u>\$ 50,622</u>	<u>\$ 81,339</u>	<u>\$ 1,281,968</u>

See Accompanying Notes.

PETFINDER FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 22,600	\$ 86,134
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
(Gain) loss on equity investment	(4,771)	2,742
Unrealized gains on marketable securities	(35,565)	-
Donated stock	-	(1,155)
Depreciation	610	825
Loss on disposal of furniture	-	1,007
(Increase) decrease in operating assets:		
Unconditional promises to give	12,965	37,794
Prepaid expenses	1,418	(174)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(4,646)	4,590
Grants payable	-	(10,693)
Custodial liabilities	-	(7,500)
Net cash provided by (used in) operating activities	<u>(7,389)</u>	<u>113,570</u>
Cash flows from investing activities:		
Purchases of investments	(560,501)	-
Proceeds from sale of investments	53,827	-
Purchase of equipment	-	(1,243)
Net cash (used in) investing activities	<u>(506,674)</u>	<u>(1,243)</u>
Net change in cash and cash equivalents	(514,063)	112,327
Cash and cash equivalents, beginning of year	<u>1,708,934</u>	<u>1,596,607</u>
Cash and cash equivalents, end of year	<u>\$ 1,194,871</u>	<u>\$ 1,708,934</u>

Supplemental disclosure:

No cash paid for interest or income taxes in 2016 or 2015.

See Accompanying Notes.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 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.

Adoption Options in Action Grants: This grant is available to Petfinder.com 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.

The All-Star Dog Rescue Spectacular Grants: For the past two years the Foundation has been the designated charity for a dog rescue focused TV special. Grants from the All-Star Dog Rescue Celebration program are general animal care grants that are used help support shelter and rescue group's dog rescue adoption efforts in a positive way.

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.

Susie's Senior Dogs Grants: Susie's Senior Dogs grants are intended to help facilitate the adoption of senior dogs in the care of Petfinder-member shelters and rescue groups. This grant is available

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

NOTE 1 – Organization and purpose – continued

by invitation only. 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.

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.

Youth Humane Education Grants: This grant was made possible by Build a Bear Workshop and the Build a Bear Workshop Foundation who join the Foundation in the belief that there is nothing more important than educating and inspiring the next generation to care for and love pets at an early age. Grants from this program will help fund existing humane education programs for kids ages 6-14 to organizations with a proven track records in teaching young people about kindness and compassion toward pets.

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, 2016, the Foundation had uninsured cash totaling \$1,185,185.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

NOTE 2 – Summary of significant accounting policies – continued

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. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

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. 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 \$500 with a useful life of more than one year.

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.

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.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

NOTE 2 – Summary of significant accounting policies – continued

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.

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*, is generally subject to examination by the Internal Revenue Service for three years after the date the return was filed.

NOTE 3 – Investments in marketable securities/fair value measurements

Investments at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Stock	\$ 830	\$ 1,155
Exchange-traded funds	283,535	-
Equity funds	71,928	-
Mutual funds	187,101	-
	<u>\$ 543,394</u>	<u>\$ 1,155</u>

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

NOTE 3 – Investments in marketable securities/fair value measurements – continued

Investment income is summarized as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and dividends	\$ 13,316	\$ 383
Unrealized gains	35,565	-
	\$ 48,881	\$ 383

The fair value of these investments are based on quoted market prices in an active market (Level 1 inputs) on a recurring basis. Investment securities 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.

NOTE 4 – 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 \$225,178 and \$220,407 at December 31, 2016 and 2015, respectively.

NOTE 5 – Temporarily restricted net assets

Temporarily restricted net asset activity was a follows for the year ended December 31, 2016:

	Beginning balance	Additions	Releases	Ending balance
Customer service	\$ 12,043	\$ -	\$ -	\$ 12,043
Disaster relief	108,343	-	(30,750)	77,593
Hide, Perch & Go	22	-	-	22
Kuranda beds	396	-	-	396
Purina animal shelter fund	1,959	-	-	1,959
Shelter a Pet	34,024	73,933	(73,465)	34,492
Feline enrichment	4,015	1,410	-	5,425
Unconditional promises to give	15,825	2,860	(15,825)	2,860
	\$ 176,627	\$ 78,203	\$ (120,040)	\$ 134,790

NOTE 6 – Donated materials

The Foundation received donated materials with a fair market value of \$90,344 and \$55,816 during the years ended December 31, 2016 and 2015, respectively. These donated materials are included in program supplies on the statements of functional expenses.

NOTE 7 – Related party transactions

The Foundation paid \$7,208 and \$7,339 in legal fees to a law firm owned by one of the board members during the years ended December 31, 2016 and 2015, respectively. The Foundation received \$326,000 and \$111,611 from Purina during the years ended December 31, 2016 and 2015, respectively. Under a two-year sponsorship agreement dated March 9, 2016, Purina has agreed to donate a minimum of \$100,000 annually to the Foundation, if certain conditions are met.

PETFINDER FOUNDATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

NOTE 8 – Subsequent events

Subsequent events have been evaluated through March 7, 2017, which is the date the financial statements were available to be issued.