

Financial Statements

PET ALLIANCE OF GREATER ORLANDO, INC.

June 30, 2017 and 2016

PET ALLIANCE OF GREATER ORLANDO, INC.

Financial Statements

June 30, 2017 and 2016

(With Independent Auditor's Report Thereon)

PET ALLIANCE OF GREATER ORLANDO, INC.

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Independent Auditor's Report

The Board of Directors
Pet Alliance of Greater Orlando, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Pet Alliance of Greater Orlando, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, 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 States 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 from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 the 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pet Alliance of Greater Orlando, Inc. as of June 30, 2017 and 2016, 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.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, management has elected to change its policy for accounting for inventories. Our opinion is not modified with respect to that matter.

Schaefer, Tschoy, Whitcomb, Mitchell & Shuiken, LLP

Maitland, Florida
November 28, 2017

PET ALLIANCE OF GREATER ORLANDO, INC.

Statements of Financial Position

June 30, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 930,769	424,431
Investments (note 3)	762,121	851,272
Pledges receivable (note 4)	-	12,796
Bequests receivable (note 1)	411,193	601,500
Inventory	220,917	96,637
Prepaid expenses and other assets	92,569	58,358
Total current assets	2,417,569	2,044,994
Property and equipment, net (note 5)	3,162,377	3,400,317
Pledges receivable (note 4)	-	22,384
Contribution receivable - split-interest agreement (note 2)	667,118	626,071
Beneficial interest in assets held by a foundation (note 6)	31,769	29,148
Total assets	<u>\$ 6,278,833</u>	<u>6,122,914</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable	\$ 320,861	237,908
Accrued expenses	182,260	145,896
Current portion of capital lease obligations (note 7)	16,411	15,343
Total current liabilities	519,532	399,147
Capital lease obligations, less current portion (note 7)	35,583	51,331
Total liabilities	555,115	450,478
Net assets:		
Unrestricted	4,645,407	4,501,185
Temporarily restricted (note 9)	1,078,311	1,171,251
Total net assets	5,723,718	5,672,436
Total liabilities and net assets	<u>\$ 6,278,833</u>	<u>6,122,914</u>

See accompanying notes to financial statements.

PET ALLIANCE OF GREATER ORLANDO, INC.

Statement of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and public support:			
Revenue			
Public medical clinic	\$ 3,568,470	-	3,568,470
Adoption and related fees	579,116	-	579,116
Merchandise sales	135,779	-	135,779
Investment income	17,048	-	17,048
Net realized and unrealized gains (losses) on investments (note 3)	39,923	-	39,923
Other revenue	51,740	-	51,740
Public Support			
Donations and grants	978,390	-	978,390
Bequest income	884,545	-	884,545
Change in value of split interest agreement	-	41,047	41,047
Change in value of beneficial interest in assets held by a foundation	2,621	-	2,621
Special events	437,818	-	437,818
Less: direct benefit costs to donors	(135,180)	-	(135,180)
Net assets released from restrictions	133,987	(133,987)	-
Total revenue and public support	<u>6,694,257</u>	<u>(92,940)</u>	<u>6,601,317</u>
Expenses:			
Program services	5,890,691	-	5,890,691
General administration	281,839	-	281,839
Fundraising and development	377,505	-	377,505
Total expenses	<u>6,550,035</u>	<u>-</u>	<u>6,550,035</u>
Change in net assets	144,222	(92,940)	51,282
Net assets at beginning of year	<u>4,501,185</u>	<u>1,171,251</u>	<u>5,672,436</u>
Net assets at end of year	<u>\$ 4,645,407</u>	<u>1,078,311</u>	<u>5,723,718</u>

See accompanying notes to financial statements.

PET ALLIANCE OF GREATER ORLANDO, INC.

Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and public support:			
Revenue			
Public medical clinic	\$ 3,979,453	-	3,979,453
Adoption and related fees	485,351	-	485,351
Merchandise sales	101,337	-	101,337
Investment income	18,923	-	18,923
Net realized and unrealized gains (losses) on investments (note 3)	(87,121)	-	(87,121)
Other revenue	61,937	-	61,937
Public Support			
Donations and grants	1,022,337	(36,628)	985,709
Bequest income	232,064	210,000	442,064
Change in value of split interest agreement	-	(5,856)	(5,856)
Special events	546,478	-	546,478
Less: direct benefit costs to donors	(174,699)	-	(174,699)
Net assets released from restrictions	295,776	(295,776)	-
Total revenue and public support	<u>6,481,836</u>	<u>(128,260)</u>	<u>6,353,576</u>
Expenses:			
Program services	6,536,932	-	6,536,932
General administration	163,926	-	163,926
Fundraising and development	459,619	-	459,619
Total expenses	<u>7,160,477</u>	<u>-</u>	<u>7,160,477</u>
Change in net assets	(678,641)	(128,260)	(806,901)
Net assets at beginning of year, as restated (note 10)	<u>5,179,826</u>	<u>1,299,511</u>	<u>6,479,337</u>
Net assets at end of year	<u>\$ 4,501,185</u>	<u>1,171,251</u>	<u>5,672,436</u>

See accompanying notes to financial statements.

PET ALLIANCE OF GREATER ORLANDO, INC.

Statements of Functional Expenses

Years ended June 30, 2017 and 2016

	2017				2016			
	Program Services	General Administration	Fundraising and Development		Program Services	General Administration	Fundraising and Development	
			Development	Total			Development	Total
Salaries and related expenses	\$ 3,460,437	231,292	135,076	3,826,805	3,827,603	104,797	132,412	4,064,812
Medical supplies	1,427,517	-	-	1,427,517	1,416,621	-	-	1,416,621
Shelter animal support costs and in-kind supplies	125,140	-	-	125,140	155,759	-	-	155,759
Summer camp expenses	8,446	-	-	8,446	6,358	-	-	6,358
Cost of resale merchandise	64,925	-	-	64,925	50,343	-	-	50,343
Utilities, security, trash and medical disposal	93,854	6,426	1,463	101,743	100,439	5,280	1,955	107,674
Repairs and maintenance	72,389	10,936	640	83,965	76,341	8,365	595	85,301
Insurance	103,065	2,602	2,603	108,270	150,510	8,344	4,615	163,469
Depreciation	230,802	4,759	2,379	237,940	249,563	5,146	2,573	257,282
Office supplies	6,102	572	179	6,853	12,678	2,044	794	15,516
Telephone expense	33,238	763	1,003	35,004	43,928	506	987	45,421
Equipment leasing and maintenance	26,510	1,116	1,164	28,790	27,717	141	524	28,382
Computer support and website costs	81,396	3,640	23,890	108,926	58,765	8,748	19,802	87,315
Direct mail campaigns and postage	27,428	20	26,067	53,515	50,983	687	45,976	97,646
Printing	9,088	1,515	5,733	16,336	11,535	1,115	5,574	18,224
Advertising, rebranding and in-kind advertising and fundraising costs	1,904	-	170,508	172,412	160,746	-	225,118	385,864
Bank charges and credit card fees	90,261	370	4,782	95,413	79,975	830	3,872	84,677
Dues, licenses and subscriptions	4,411	2,336	386	7,133	7,063	3,037	115	10,215
Professional fees	4,291	9,500	920	14,711	21,407	9,847	12,040	43,294
Travel costs, vehicle expense and repairs	8,073	2,736	20	10,829	16,539	-	329	16,868
Interest expense	4,540	-	-	4,540	4,933	-	-	4,933
Miscellaneous expenses	6,874	3,256	692	10,822	7,126	5,039	2,338	14,503
Total expenses	\$ 5,890,691	281,839	377,505	6,550,035	6,536,932	163,926	459,619	7,160,477

See accompanying notes to financial statements.

PET ALLIANCE OF GREATER ORLANDO, INC.

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 51,282	(806,901)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	237,940	257,282
Net unrealized (gains) losses on investments	(39,923)	94,899
Change in operating assets and liabilities:		
Pledges receivable	35,180	60,303
Bequests receivable	190,307	(26,500)
Contribution receivable - split interest agreement	(41,047)	5,856
Inventory	(124,280)	444
Prepaid expenses and other assets	(34,211)	58,271
Beneficial interest in assets held by a foundation	(2,621)	-
Accounts payable	82,953	25,268
Accrued expenses	36,364	43,272
Net cash provided by (used in) operating activities	<u>391,944</u>	<u>(287,806)</u>
Cash flows from investing activities:		
Purchases of investments	(316,063)	(724,235)
Proceeds from sales of investments	445,137	946,635
Purchases of property and equipment	-	(9,356)
Repayment of capital lease obligations	(14,680)	(14,287)
Net cash provided by investing activities:	<u>114,394</u>	<u>198,757</u>
Net increase (decrease) in cash and cash equivalents	506,338	(89,049)
Cash and cash equivalents at beginning of year	<u>424,431</u>	<u>513,480</u>
Cash and cash equivalents at end of year	<u>\$ 930,769</u>	<u>424,431</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 4,540</u>	<u>4,933</u>

See accompanying notes to financial statements.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies

(a) General

Pet Alliance of Greater Orlando, Inc. (the “Organization”) is a not-for-profit organization incorporated in Orange County, Florida. The Organization educates, shelters, places, and heals pets and their families with compassionate, responsible care maintained to the highest professional standards. The vision of the Organization is to create more caring communities by promoting happier, healthier pets and their families.

As the go-to pet experts for Central Florida, the Organization does good things for dogs and cats and the people who love them. Formerly the SPCA of Central Florida, the Organization’s goal is to provide compassionate and knowledgeable services for pets and to be leaders in innovative animal care and veterinary medicine. More than 10,000 homeless dogs and cats will turn to the Organization for caring, compassion, and hope through its two animal shelters this year. Highly skilled veterinarians will help and heal an additional 45,000 animals through two veterinary clinics. Providing shelter for animals in crisis, disaster response efforts, and pet food pantry programs for dogs and cats in need, thousands of additional animals are helped each year. Visit www.PetAllianceOrlando.org for more information.

(b) Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting and represent the financial position and results of operations of the Organization.

The Organization has adopted the provisions of Financial Accounting Standards Board ASC 958, Accounting for Contributions Received and Contributions Made and Financial Statements for Not-for-Profit Organizations.

These financial statements are prepared on an entity wide basis, focusing on the organization as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by aggregating all funds into one set of financial statements and classifying fund balances and transactions into three classes of net assets – unrestricted, temporarily restricted, and permanently restricted as follows:

- ◆ Unrestricted net assets---Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies (Continued)

(b) Basis of Presentation (Continued)

- ◆ Temporarily restricted net assets---Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time (See note 9).
- ◆ Permanently restricted net assets---Net assets subject to donor-imposed stipulations that will be maintained permanently by the Organization. There were no permanently restricted net assets as of or for the years ended June 30, 2017 and 2016.

Revenue and Public Support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Contributions, including unconditional promises to give, are recognized as revenue in the period made or received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets, materials, and facilities are recorded at their estimated fair value at the date of gift. Such values are recorded in the financial statements as an asset or expense and revenue. In addition, the Organization receives a significant amount of contributed time related to various program services and fundraising campaigns. These contributed services are recorded at their estimated fair value at the date of service if they meet the following criteria: (a) the services would have otherwise been purchased by the Organization, and (b) the services required specialized skills. For the years ended June 30, 2017 and 2016, contributed assets and services amounted to approximately \$277,000 and \$495,000, respectively.

From time to time, the Organization is informed of intentions to give by prospective donors. Such expressions of intent are revocable and unenforceable. The ultimate value of these expressions has not been established nor have they been recognized in the accompanying financial statements.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) **Organization and Summary of Significant Accounting Policies (Continued)**

(c) **Property and Equipment**

Property and equipment are stated at cost, or estimated market value at the date of receipt if donated, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. All property expenditures in excess of \$2,000 are capitalized; maintenance and renewals are charged to expense as incurred.

(d) **Inventories**

Inventories consist of medical supplies and resale merchandise and are stated at the lower of cost or market. Cost is determined under the first-in, first-out method.

(e) **Long-Lived Assets**

The Organization follows the policy of lifting restrictions on contributions of cash and other assets received for the acquisition of long-lived assets when the long-lived assets are acquired.

In accordance with "Property, Plant and Equipment – Impairment or Disposal of Long-Lived Assets," FASB Codification Topic 360-10 (Topic 360-10) long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market value and third-party independent appraisals, as considered necessary. No impairment charges have been recorded in the accompanying financial statements related to long-lived assets.

(f) **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies (Continued)

(g) Functional Allocation of Expenses

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

(h) Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(i) Income Taxes

The Organization is exempt from federal income tax under provision of Section 501(c)(3) of the Internal Revenue Code. The Organization is not aware of any activities that would jeopardize its tax-exempt status or that are subject to tax on unrelated business income, excise or other taxes. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Consequently, no provision for income taxes has been included in the accompanying financial statements.

In accordance with “Income Taxes” FASB Accounting Standards Codification Topic 740 (Topic 740), all entities are required to evaluate and disclose income tax risks. Topic 740 clarifies the accounting for uncertainty in tax positions and prescribes guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of June 30, 2017 and 2016, the Organization had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies (Continued)

(i) Income Taxes (Continued)

The Organization's income tax returns are subject to review and examination by federal authorities. Since the Organization's income tax filings are subject to audit by federal taxing authorities, generally three years after they are filed, the Organization is no longer subject to examinations by federal taxing authorities for the years ended before June 30, 2014. In addition, there are currently no pending income tax examinations by federal taxing authorities.

(j) Financial Instruments Fair Value, Concentration of Business and Credit Risks

The Organization's financial instruments are cash and cash equivalents, investments, short-term contributions receivable, prepaid expenses and other assets, a long-term contribution receivable – split-interest agreement, beneficial interest in assets held by a Foundation, accounts payable, accrued expenses and capital lease obligations.

The recorded values of cash and cash equivalents, short-term contributions receivable, prepaid expenses and other assets, accounts payable, and accrued expenses, approximate their fair value based on their short-term nature.

The recorded value of investments approximates fair value based on quoted market prices (Level 1 inputs) in an active market for identical assets or liabilities (see notes 1(k) and 3).

The recorded net present value of a long-term contribution receivable split-interest agreement approximates fair value, as the discount rate approximates market rates (Level 3 inputs) (See notes 1(k) and 2). The fair value of the underlying investments within the trust instruments are based on quoted market prices (Level 1 inputs) in an active market for identical assets or liabilities.

The recorded values of beneficial interest in assets held by a Foundation approximate fair value as they are based on these funds being pooled into various investment funds held by the Foundations (Level 3 inputs) (See notes 1(k) and 6). The fair value of the underlying investments within the Foundation's investment funds are based on quoted market prices (Level 1 inputs) in an active market for identical assets or liabilities.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies (Continued)

(j) Financial Instruments Fair Value, Concentration of Business and Credit Risks (Continued)

The carrying amount reported in the accompanying Statement of Financial Position for capital lease obligations approximates fair value because actual interest rates do not significantly differ from current rates offered for instruments with similar characteristics.

Grants and contracts receivable arise as a result of the agreements with third parties to provide specified services. The grants and contracts are monitored on a monthly basis and are not collateralized.

The Organization maintains its cash balances at certain financial institutions in which balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. During the year, the Organization from time to time may have had amounts on deposit in excess of the insured limits. Management believes the associated risk is minimized by placing such assets with quality financial institutions. The Organization has not experienced any losses on such accounts.

(k) Fair Value Measurements

The Organization has adopted accounting standards for fair value measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements of assets and liabilities to include disclosure about inputs used in the determination of fair value using the three categories listed below.

These accounting standards apply under other accounting pronouncements previously issued by the Financial Accounting Standards Board, or FASB, which require or permit fair measurements. The adoption of the new accounting standards did not impact the Organization's financial position or results of operations.

Fair value is defined under "Fair Value Measurements and Disclosures," FASB Accounting Standards Codification Topic 820 (Topic 820) as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Topic 820 also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) **Organization and Summary of Significant Accounting Policies (Continued)**

(k) **Fair Value Measurements (Continued)**

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels of inputs to the valuation methodology are:

- Level 1 quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3 unobservable and significant to the fair value measurement of the asset or liability.

The Organization's financial instruments measured at fair value on a recurring basis subject to the disclosure requirements of Topic 820 at June 30, 2017 and 2016 were as follows:

<u>2017</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Fair Value</u>
Investments	<u>\$ 762,121</u>	<u>-</u>	<u>-</u>	<u>762,121</u>
Contribution receivable – split-interest agreement	<u>-</u>	<u>-</u>	<u>667,118</u>	<u>667,118</u>
Beneficial interest in assets held by a foundation	<u>-</u>	<u>-</u>	<u>31,769</u>	<u>31,769</u>

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies (Continued)

(k) Fair Value Measurements (Continued)

<u>2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Fair Value</u>
Investments	<u>\$ 851,272</u>	<u>-</u>	<u>-</u>	<u>851,272</u>
Contribution receivable – split-interest agreement	<u>-</u>	<u>-</u>	<u>626,071</u>	<u>626,071</u>
Beneficial interest in assets held by a foundation	<u>-</u>	<u>-</u>	<u>29,148</u>	<u>29,148</u>

(l) Subsequent Events

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition and disclosure through November 28, 2017, which is the date the financial statements were available to be issued.

(m) Bequests Receivable

The Organization records bequests receivable when notification has been received that the Organization has been named as a beneficiary in a will or a trust, the probate courts have declared the will valid, and the amount to be received is known as the value can be reasonably estimated and measurable or an estimate has been provided by the trustee or the executor of the estate. However, if notification is received after year end and the amount is material, a disclosure is made as a subsequent event.

If the will or trust provides that the Organization will receive a percentage, but the total realizable amounts are not presently determinable, no entries are recorded.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies (Continued)

(m) Bequests Receivable (Continued)

Certain gifts have not been recorded in the accompanying financial statements because donors' wills have not yet been declared valid by the probate court or the value of the amounts to be received is not yet determinable. The Organization will record and report all such gifts as the value is determined.

The Organization has been named as a beneficiary in several wills or trust agreements where the person hasn't passed away or is a contingent beneficiary. These are considered intentions to give or conditional promises to give and not unconditional promises to give, and as a result, no entries are recorded and no disclosures are made in the financial statements

(2) Split-Interest Agreement

During 2001, the Organization became a beneficiary to an irrevocable charitable remainder trust. A charitable remainder trust provides for the payment of distributions to beneficiaries over the trust term. The trust term provides that approximately one-third of the trust will be paid at the end of ten, twenty, and thirty years. At the end of the term, the remaining assets are distributed to specified beneficiaries including the Organization. The portion of the trust attributable to the present value of the future benefits to be received by the Organization is recorded in the statement of activities as a temporarily restricted contribution in the period the trust is contributed. The related receivable is shown under split-interest receivable in the statement of financial position. The assets are held by a third party who administers the gift. For the years ended June 30, 2017 and 2016, the net present value of the Organization's interest using a 6.5% discount rate is \$667,118 and \$626,071, respectively, and is considered or classified as temporarily restricted due to the passage of time.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(3) **Investments (Continued)**

At June 30, 2017 and 2016, the Organization's investment portfolio consisted of marketable equity and fixed income securities carried at fair value. The Organization derives the fair value of its securities based on quoted market prices.

The following table summarizes the Organization's investments at June 30, 2017 and 2016:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Mutual funds - equities	\$ 230,088	255,402	261,370	253,306
Mutual funds - fixed income securities	308,492	313,058	400,701	409,013
Real asset funds - real assets	60,290	60,943	103,232	112,115
Other – alternative investments	130,902	132,718	80,500	76,838
	<u>\$ 728,751</u>	<u>762,121</u>	<u>845,803</u>	<u>851,272</u>

Investment gains and losses as reported in the accompanying statements of activities include unrealized gains of \$39,923 and unrealized losses of \$94,899 in 2017 and 2016, respectively, associated with the investments reflected herein.

(4) **Pledges Receivable**

As of June 30, 2017 and 2016, contributors to the Organization have unconditionally promised to give the following amounts:

	2017	2016
Less than one year	\$ -	27,018
One to five years	-	63,042
	-	90,060
Less:		
Unamortized discount	-	(7,475)
Allowance for uncollectible pledges	-	(47,405)
Total	<u>\$ -</u>	<u>35,180</u>

Interest was imputed at 3.5% in discounting long-term promises to give.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(5) **Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>Useful Life</u>	<u>2017</u>	<u>2016</u>
Buildings and improvements	7-40	\$ 5,496,051	5,496,051
Equipment and software	3-7	1,131,817	1,131,817
Vehicles	5	<u>376,932</u>	<u>376,932</u>
		7,004,800	7,004,800
Less accumulated depreciation		<u>3,842,423</u>	<u>3,604,483</u>
		<u>\$ 3,162,377</u>	<u>3,400,317</u>

The Organization leases the land on which the buildings are located under long-term leases with Orange County and Seminole County, Florida, which expire March 2, 2042 and October 5, 2043, respectively. Under the terms of the leases, the Organization paid total consideration of \$10. The effect of these leases is not reflected in the accompanying statements of activities because the fair value of these leases is not readily determinable.

(6) **Beneficial Interest in Assets Held by a Foundation**

The Organization established an endowment with the Central Florida Foundation (the "CFF"). The endowment will provide a permanent source of income for the Organization. Future income may be withdrawn or added to the principal balance of the endowment at the Organization's discretion. In accordance with accounting standards on the reporting of endowment funds, those funds are classified as unrestricted and are carried as an asset on the accompanying statement of financial position.

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(7) **Leases**

The Organization leases certain office equipment under leases accounted for as capital leases.

At June 30, 2017, future minimum annual rental commitments under non-cancellable lease obligations are as follows:

<u>Year-ending June 30,</u>	<u>Capital Leases</u>
2018	\$ 19,244
2019	19,244
2020	10,539
2021	<u>7,644</u>
Total minimum lease payments	56,671
Less amounts representing interest at 5.5% to 7.5%.	<u>(4,677)</u>
Present value of net minimum lease payments	<u>\$ 51,994</u>

(8) **Employee Benefit Plan**

The Organization's contributions to a salary savings 401(k) plan for the years ended June 30, 2017 and 2016 amounted to approximately \$16,000 and \$21,000, respectively.

(9) **Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Contribution receivable – split-interest agreement	\$ 667,118	626,071
Pledges receivable	-	35,180
Purpose restrictions – cats in Seminole County	<u>411,193</u>	<u>510,000</u>
	<u>\$ 1,078,311</u>	<u>1,171,251</u>

PET ALLIANCE OF GREATER ORLANDO, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(10) Prior Period Adjustment

During the fiscal year ended June 30, 2017, the Organization began to record medical supplies inventory in order to more accurately reflect supplies expense. A prior period adjustment to properly reflect this change was made to record inventory as of June 30, 2015 increasing beginning unrestricted net assets as follows:

Net assets as originally reported at June 30, 2015	\$ 6,399,337
Prior period inventory adjustment	<u>80,000</u>
Net assets as restated at June 30, 2015	<u>\$ 6,479,337</u>