

MUTTVILLE

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2021 AND 2020**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Muttville
San Francisco, California**

Opinion

We have audited the accompanying financial statements of Muttville (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, 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 our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muttville as of December 31, 2021 and 2020, 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

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

Our 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 our 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 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, we:

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

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



GILBERT CPAs
Sacramento, California

September 23, 2022

MUTTVILLE

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,578,932	\$ 7,147,796
Current portion of contributions receivable	3,469,629	152,422
Current portion of charitable lead annuity trust receivable	1,001,250	1,001,250
Prepaid expenses	<u>106,056</u>	<u>96,304</u>
Total current assets	19,155,867	8,397,772
CONTRIBUTIONS RECEIVABLE, Net	5,743,769	27,881
CHARITABLE LEAD ANNUITY TRUST RECEIVABLE, Net	4,569,736	5,415,390
PROPERTY AND EQUIPMENT, Net	<u>16,120,063</u>	<u>15,356,847</u>
TOTAL ASSETS	<u>\$ 45,589,435</u>	<u>\$ 29,197,890</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 247,453	\$ 154,026
Accrued expenses	188,549	93,867
Current portion of long-term debt	<u>267,807</u>	<u>258,222</u>
Total current liabilities	703,809	506,115
LONG-TERM DEBT, Net	<u>9,245,789</u>	<u>9,513,605</u>
Total liabilities	<u>9,949,598</u>	<u>10,019,720</u>
NET ASSETS:		
Without donor restrictions:		
Board designated reserve for facility acquisition/construction	4,000,000	4,000,000
Undesignated	8,944,903	6,102,893
With donor restrictions	<u>22,694,934</u>	<u>9,075,277</u>
Total net assets	<u>35,639,837</u>	<u>19,178,170</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 45,589,435</u>	<u>\$ 29,197,890</u>

The accompanying notes are an integral part of these financial statements.

MUTTVILLE

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Contributions and grants	\$ 4,703,199	\$ 4,101,583
Fundraising event revenues (net of direct benefit to donors of \$91,601 in 2021 and \$16,250 in 2020)	1,093,842	1,026,551
In-kind contributions	868,373	677,315
Paycheck Protection Program loan forgiveness		227,300
Other income	15,368	5,743
Net assets released from restrictions	<u>1,417,084</u>	<u>1,338,229</u>
Total revenues	<u>8,097,866</u>	<u>7,376,721</u>
EXPENSES:		
Program services:		
Animal care and adoption	<u>3,712,517</u>	<u>3,118,059</u>
Supporting services:		
Fundraising	1,121,948	873,903
General and administrative	<u>421,391</u>	<u>840,122</u>
Total supporting services	<u>1,543,339</u>	<u>1,714,025</u>
Total expenses	<u>5,255,856</u>	<u>4,832,084</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,842,010</u>	<u>2,544,637</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions and grants	15,036,741	769,053
Net assets released from restrictions	<u>(1,417,084)</u>	<u>(1,338,229)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>13,619,657</u>	<u>(569,176)</u>
INCREASE IN NET ASSETS	16,461,667	1,975,461
NET ASSETS, Beginning of Year	<u>19,178,170</u>	<u>17,202,709</u>
NET ASSETS, End of Year	<u>\$ 35,639,837</u>	<u>\$ 19,178,170</u>

The accompanying notes are an integral part of these financial statements.

MUTTVILLE

STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021				2020			
	Animal care and adoption	Supporting services			Animal care and adoption	Supporting services		
		Fundraising	General and administrative	Total		Fundraising	General and administrative	Total
Personnel	\$ 1,371,887	\$ 451,480	\$ 236,962	\$ 2,060,329	\$ 1,183,045	\$ 415,775	\$ 207,363	\$ 1,806,183
Animal care	1,610,146			1,610,146	1,357,722			1,357,722
Professional fees	213,032	127,946	51,853	392,831	200,452	44,788	161,926	407,166
Facilities and equipment rentals	278,739	20,607	18,828	318,174	258,413	17,060	16,429	291,902
Supplies	167,411	32,627	90,847	290,885	51,740	18,024	104,337	174,101
Events		165,762		165,762		80,390		80,390
Printing	387	154,358		154,745	3,444	139,407		142,851
Postage and shipping	1,172	84,402	25	85,599	1,257	63,911	595	65,763
Bank fees		55,996	10,597	66,593		72,885	5,388	78,273
Depreciation	42,473	8,728	6,982	58,183	43,920	9,024	7,219	60,163
Telecommunications	14,023	5,529	524	20,076	11,978	4,278	309	16,565
Transportation	4,318	207	2,514	7,039	3,935	570	2,434	6,939
Interest			1,130	1,130			333,080	333,080
Other expenses	8,929	14,306	1,129	24,364	2,153	7,791	1,042	10,986
Total	<u>\$ 3,712,517</u>	<u>\$ 1,121,948</u>	<u>\$ 421,391</u>	<u>\$ 5,255,856</u>	<u>\$ 3,118,059</u>	<u>\$ 873,903</u>	<u>\$ 840,122</u>	<u>\$ 4,832,084</u>

The accompanying notes are an integral part of these financial statements.

MUTTVILLE

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 16,461,667	\$ 1,975,461
Reconciliation to net cash provided by operating activities:		
Donated property and equipment	(134,912)	(24,946)
Donated investments	(340,303)	(34,693)
Depreciation	58,183	60,163
Loss on disposal of property and equipment	21,616	16,898
Gain on investments	(29,105)	(1,418)
Changes in:		
Contributions and grants receivable	(9,033,095)	(69,536)
Charitable lead annuity trust receivable	845,654	824,224
Prepaid expenses	(9,752)	(15,911)
Deposit on property purchase		1,000,000
Accounts payable	93,427	10,046
Accrued expenses	94,682	17,926
Net cash provided by operating activities	<u>8,028,062</u>	<u>3,758,214</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of donated investments	369,408	36,111
Purchases of property and equipment	(355,780)	(5,186,819)
Interest capitalized as property and equipment	(352,323)	
Net cash used in investing activities	<u>(338,695)</u>	<u>(5,150,708)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	<u>(258,231)</u>	<u>(228,173)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,431,136	(1,620,667)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>7,147,796</u>	<u>8,768,463</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 14,578,932</u>	<u>\$ 7,147,796</u>
NONCASH INVESTING ACTIVITIES:		
Property and equipment financed through note payable	<u>\$</u>	<u>\$ 10,000,000</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 353,453</u>	<u>\$ 333,080</u>

The accompanying notes are an integral part of these financial statements.

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND NATURE OF ACTIVITIES

Muttville, founded in 2007, is a California nonprofit public benefit corporation dedicated to helping older dogs. Shelters and other animal organizations refer senior dogs, many at the risk of euthanasia, to Muttville. Muttville takes as many as they have capacity for, gives them the care they need, promotes them to find them new homes and works with adopters to help create a lasting bond.

Muttville has its own cage-free facility, housing newly rescued senior dogs while they wait to be matched with foster homes, and its own in-house vet suite, to ensure that dogs are efficiently treated and to inform potential adopters of some health issues.

Muttville advocates for and educates about senior dogs, both to the public at large and within the animal welfare community. Muttville's groundbreaking programs, including foster and hospice, have been studied by other animal welfare organizations around the world seeking to help senior animals.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. Muttville reports information regarding its financial position and activities according to two classes of net assets: *without donor restrictions* and *with donor restrictions*. Muttville has no net assets with donor restrictions that are perpetual in nature.

Revenue recognition – Contributions and grants are recognized in full when received or unconditionally promised, in accordance with professional standards. 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 met. All contributions and grants are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose.

Muttville receives certain contributions from donors which are conditional upon the occurrence of certain events. Outstanding conditional contributions totaled \$120,000 at December 31, 2021. There were no outstanding conditional contributions at December 31, 2020.

Donated goods, facilities, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

Fundraising event revenues are recognized in the year the related event occurs.

Cash and cash equivalents – Muttville considers all highly liquid investments with a maturity date of three months or less to be cash equivalents, unless held for long-term purposes.

Muttville minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. Muttville's deposits of cash held with financial institutions in excess of federal depository insurance

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

limits were \$8,762,198 and \$6,624,237 as of December 31, 2021 and 2020, respectively. Muttville has not experienced any losses in such accounts and management believes Muttville is not exposed to any significant credit risk related to cash.

Contributions receivable are considered to be available for general operations unless specifically restricted by the donor. Contributions receivable are recognized when supported by a written contract to make a contribution and are reported net of the allowance for uncollectible accounts. However, management has determined that no allowance is deemed necessary at December 31, 2021, based on their conclusion that all contributions were collectible. Discounts on contributions are computed using interest rates applicable to the year in which the promise is received.

The discount rate used in determining the net present value of contributions receivable was 3.6% at December 31, 2021.

Contributions receivable at December 31, 2021 of \$3,436,718 are expected to be collected within one year and the remaining \$5,743,769 (net of \$390,196 discount) are expected to be collected within one to five years.

Contributions receivable at December 31, 2020 of \$152,422 were expected to be collected within one year and the remaining \$27,881 (net of \$2,119 discount) were expected to be collected within one to five years.

Property and equipment – Property and equipment are stated at cost if purchased or, if donated, at fair market value on the date of donation. Muttville capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 15 years.

Income taxes – Muttville is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the corresponding provision of the California Revenue and Taxation Code.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability.

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses – The costs of providing the program services have been summarized on a functional basis in the statements of activities and functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel costs are allocated based on employees' time incurred. Office supplies, printing, equipment rentals, postage and shipping, telecommunications, and professional fees are allocated based on management's estimates of usage of resources. All other costs are based on actual usage of resources.

Recent accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending December 31, 2022. Muttville is currently evaluating the impact this pronouncement will have on the financial statements.

Subsequent events have been reviewed through September 23, 2022, the date the financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2021, that require recognition or disclosure in such financial statements.

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Muttville's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 14,578,932	\$ 7,147,796
Contributions and grants receivable	9,213,398	180,303
Charitable lead annuity trust receivable, net	<u>5,570,986</u>	<u>6,416,640</u>
Total financial assets	29,363,316	13,744,739
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors for time or purpose	(21,511,007)	(8,074,027)
Board-designated:		
Reserve for facility acquisition/construction	<u>(4,000,000)</u>	<u>(4,000,000)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 3,852,309</u>	<u>\$ 1,700,712</u>

Muttville has a goal to maintain financial assets, which consist of cash and equivalents, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$1,200,000. Muttville structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, Muttville invests cash in amounts that exceed normal operating requirements into an insured cash sweep account, which allows Muttville to maintain liquidity and flexibility while investing cash interest-bearing accounts.

4. PROPERTY AND EQUIPMENT

Property and equipment as of December 31 consist of the following:

	<u>2021</u>	<u>2020</u>
Land and building	\$ 15,033,109	\$ 15,033,109
Furniture and equipment	312,694	219,583
Leasehold improvements	122,887	121,144
Vehicles	29,000	29,000
Construction in progress	<u>915,181</u>	<u>190,175</u>
Total	16,412,871	15,593,011
Less accumulated depreciation	<u>(292,808)</u>	<u>(236,164)</u>
Total	<u>\$ 16,120,063</u>	<u>\$ 15,356,847</u>

During 2020, a new facility was purchased for Muttville's headquarters. The building has not been placed in service as of December 31, 2021.

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

5. CHARITABLE LEAD ANNUITY TRUST

During 2017, a donor established a charitable lead annuity trust naming Muttville as the lead beneficiary. Under the terms of this split-interest agreement, Muttville is to receive approximately \$1,000,000 annually over a ten year period beginning in 2018. The contribution receivable and revenue related to this charitable lead annuity trust were recorded at the estimated fair value using a discount rate of 2.6% and are classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions.

6. LONG-TERM DEBT

In January 2020, Muttville entered into a loan agreement with Umpqua Bank to borrow \$10,000,000 to purchase Muttville's new headquarters. The loan bears an interest rate equal to 3.6%. Monthly principal and interest payments of \$50,880 are due beginning March 2020 with a final balloon payment of \$7,073,114 due February 2030. Interest incurred and capitalized for the year ended December 31, 2021 totaled \$352,323. Interest incurred for the year ended December 31, 2020 totaled \$333,080. Muttville has met all loan covenants at December 31, 2021 and 2020.

The future annual payments are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 267,807
2023	277,747
2024	287,134
2025	298,714
2026	309,801
Thereafter	<u>8,072,393</u>
Total	<u>\$ 9,513,596</u>

7. OPERATING LEASES

Muttville leases office space and equipment under non-cancelable operating leases expiring at various dates through December 2023. Total expenses under the office space and equipment leases were \$104,160 and \$112,263 in 2021 and 2020, respectively.

Future minimum payments are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 89,040
2023	<u>84,540</u>
Total	<u>\$ 173,580</u>

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

8. NET ASSETS

Net assets with donor restrictions are restricted for the following purposes and activities as of December 31:

	<u>2021</u>	<u>2020</u>
Capital campaign	\$ 16,888,926	\$ 2,348,381
Time restriction	5,570,986	6,416,640
Seniors for Seniors	124,805	78,756
Veterinarian suite renovation	11,119	6,119
Rescue and rehabilitation for small dogs		100,000
Education		55,000
Other	<u>99,098</u>	<u>70,381</u>
Total	<u>\$ 22,694,934</u>	<u>\$ 9,075,277</u>

The Board of Directors has designated \$4,000,000 at both December 31, 2021 and 2020 of Muttville's net assets without donor restrictions as a reserve for the acquisition and construction of a headquarters facility.

9. IN-KIND CONTRIBUTIONS

Muttville received the following in-kind contributions during the year ending December 31:

	<u>2021</u>	<u>2020</u>
Rent	\$ 277,680	\$ 246,141
Professional services	216,650	204,517
Veterinary services	206,604	180,990
Merchandise	167,439	32,398
Advertising		<u>13,269</u>
Total	<u>\$ 868,373</u>	<u>\$ 677,315</u>

In-kind contributions provide support for Muttville's operations, events and development of the new headquarters under construction.

10. RELATED PARTY TRANSACTIONS

A Board Member of Muttville is an owner of a communications consulting firm that performs marketing services for Muttville. Muttville paid total marketing fees to this firm in the amount of \$79,844 and \$69,300 for the years ended December 31, 2021 and 2020, respectively.