

MUTTVILLE

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

**YEARS ENDED
DECEMBER 31, 2020 AND 2019**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Muttville (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, 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 audits to obtain reasonable assurance about whether the financial statements are free from 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muttville as of December 31, 2020 and 2019, 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.

A handwritten signature in black ink that reads "Gilbert CPAs". The signature is written in a cursive, flowing style.

GILBERT CPAs
Sacramento, California

June 24, 2021

MUTTVILLE

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,147,796	\$ 8,768,463
Contributions and grants receivable	152,422	110,767
Charitable lead annuity trust receivable, current portion	1,001,250	1,001,250
Prepaid expenses	96,304	80,393
Deposit on property purchase	<u> </u>	<u>1,000,000</u>
Total current assets	8,397,772	10,960,873
CONTRIBUTIONS RECEIVABLE, Net	27,881	
CHARITABLE LEAD ANNUITY TRUST RECEIVABLE, Net	5,415,390	6,239,614
PROPERTY AND EQUIPMENT, Net	<u>15,356,847</u>	<u>222,143</u>
TOTAL ASSETS	<u>\$ 29,197,890</u>	<u>\$ 17,422,630</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 154,026	\$ 143,980
Accrued expenses	93,867	75,941
Current portion of long-term debt	<u>258,222</u>	<u> </u>
Total current liabilities	506,115	219,921
LONG-TERM DEBT, Net	<u>9,513,605</u>	<u> </u>
Total liabilities	<u>10,019,720</u>	<u>219,921</u>
NET ASSETS:		
Without donor restrictions:		
Board designated reserve for facility acquisition/construction	4,000,000	4,000,000
Undesignated	6,102,893	3,558,256
With donor restrictions	<u>9,075,277</u>	<u>9,644,453</u>
Total net assets	<u>19,178,170</u>	<u>17,202,709</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,197,890</u>	<u>\$ 17,422,630</u>

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

MUTTVILLE

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Contributions and grants	\$ 4,101,583	\$ 3,585,246
Fundraising event revenues (net of direct benefit to donors of \$16,250 in 2020 and \$80,556 in 2019)	1,026,551	801,252
In-kind contributions	677,315	1,882,856
Paycheck Protection Program loan forgiveness	227,300	
Other income	5,743	115,338
Net assets released from restrictions	<u>1,338,229</u>	<u>1,271,402</u>
Total revenues	<u>7,376,721</u>	<u>7,656,094</u>
EXPENSES:		
Program services:		
Animal care and adoption	<u>3,118,059</u>	<u>4,425,985</u>
Supporting services:		
Fundraising	873,903	814,825
General and administrative	<u>840,122</u>	<u>497,670</u>
Total supporting services	<u>1,714,025</u>	<u>1,312,495</u>
Total expenses	<u>4,832,084</u>	<u>5,738,480</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,544,637</u>	<u>1,917,614</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions and grants	769,053	615,342
Net assets released from restrictions	<u>(1,338,229)</u>	<u>(1,271,402)</u>
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(569,176)</u>	<u>(656,060)</u>
INCREASE IN NET ASSETS	1,975,461	1,261,554
NET ASSETS, Beginning of Year	<u>17,202,709</u>	<u>15,941,155</u>
NET ASSETS, End of Year	<u>\$ 19,178,170</u>	<u>\$ 17,202,709</u>

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

MUTTVILLE

STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020				2019			
	<u>Animal care and adoption</u>	<u>Supporting services</u>		<u>Total</u>	<u>Animal care and adoption</u>	<u>Supporting services</u>		<u>Total</u>
		<u>Fundraising</u>	<u>General and administrative</u>			<u>Fundraising</u>	<u>General and administrative</u>	
Personnel	\$ 1,183,045	\$ 415,775	\$ 207,363	\$ 1,806,183	\$ 1,028,025	\$ 358,469	\$ 211,802	\$ 1,598,296
Animal care	1,357,722			1,357,722	1,764,293			1,764,293
Professional fees	200,452	44,788	161,926	407,166	1,087,609	98,702	247,250	1,433,561
Interest			333,080	333,080				
Facilities and equipment rentals	258,413	17,060	16,429	291,902	371,098	1,371	7,554	380,023
Supplies	51,740	18,024	104,337	174,101	90,103	15,187	20,507	125,797
Printing	3,444	139,407		142,851	1,610	88,267	65	89,942
Events		80,390		80,390	49	146,913		146,962
Bank fees		72,885	5,388	78,273		46,720	959	47,679
Postage and shipping	1,257	63,911	595	65,763	2,107	36,205	168	38,480
Depreciation	43,920	9,024	7,219	60,163	34,490	7,087	5,670	47,247
Telecommunications	11,978	4,278	309	16,565	10,998	5,480	364	16,842
Transportation	3,935	570	2,434	6,939	6,215	82	1,997	8,294
Other expenses	2,153	7,791	1,042	10,986	29,388	10,342	1,334	41,064
Total	<u>\$ 3,118,059</u>	<u>\$ 873,903</u>	<u>\$ 840,122</u>	<u>\$ 4,832,084</u>	<u>\$ 4,425,985</u>	<u>\$ 814,825</u>	<u>\$ 497,670</u>	<u>\$ 5,738,480</u>

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

MUTTVILLE

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,975,461	\$ 1,261,554
Reconciliation to net cash provided by operating activities:		
Donated property and equipment	(24,946)	(18,000)
Donated investments	(34,693)	(59,906)
Depreciation	60,163	47,247
Loss on disposal of property and equipment	16,898	
Loss (gain) on investments	(1,418)	158
Changes in:		
Contributions and grants receivable	(69,536)	(95,106)
Charitable lead annuity trust receivable	824,224	803,338
Prepaid expenses	(15,911)	(31,256)
Deposit on property purchase	1,000,000	(1,000,000)
Accounts payable	10,046	31,389
Accrued expenses	17,926	(59,612)
Net cash provided by operating activities	<u>3,758,214</u>	<u>879,806</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of donated investments	36,111	59,748
Purchases of property and equipment	<u>(5,186,819)</u>	<u>(72,819)</u>
Net cash used by investing activities	<u>(5,150,708)</u>	<u>(13,071)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	<u>(228,173)</u>	<u> </u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,620,667)	866,735
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>8,768,463</u>	<u>7,901,728</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 7,147,796</u>	<u>\$ 8,768,463</u>
NONCASH INVESTING ACTIVITIES:		
Property and equipment financed through note payable	<u>\$ 10,000,000</u>	<u>\$ </u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 333,080</u>	<u>\$ </u>

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

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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.

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 limits were \$6,624,237 and \$8,140,676 as of December 31, 2020 and 2019, 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2020, 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, 2020.

Contributions receivable at December 31, 2020 of \$152,422 are expected to be collected within one year and the remaining \$27,881 (net of \$2,119 discount) are expected to be collected within one to five years. All contributions receivable at December 31, 2019 were expected to be collected within one year.

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. |

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 of 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.

Reclassifications – Certain 2019 amounts have been reclassified to conform with the 2020 financial statement presentation.

Subsequent events have been reviewed through June 24, 2021, the date the financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2020, that require recognition or disclosure in such financial statements.

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 7,147,796	\$ 8,768,463
Contributions and grants receivable	180,303	110,767
Charitable lead annuity trust receivable, net	<u>6,416,640</u>	<u>7,240,864</u>
Total financial assets	13,744,739	16,120,094
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors for time or purpose	(9,075,277)	(9,644,453)
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>\$ 669,462</u>	<u>\$ 2,475,641</u>

MUTTVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Muttville has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$1,000,000. 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 in investments, specifically short-term certificates of deposit. As certificates of deposit mature, operating liquidity is assessed before reinvesting the funds. Muttville has met all loan covenants at December 31, 2020.

4. PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land and building	\$ 15,033,109	
Furniture and equipment	219,583	\$ 234,047
Leasehold improvements	121,144	121,144
Vehicles	29,000	29,000
Construction in progress	190,175	21,412
Total	<u>15,593,011</u>	<u>405,603</u>
Less accumulated depreciation	<u>(236,164)</u>	<u>(183,460)</u>
Total	<u>\$ 15,356,847</u>	<u>\$ 222,143</u>

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

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The future annual payments are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 258,222
2022	267,807
2023	277,747
2024	287,134
2025	298,714
Thereafter	<u>8,382,203</u>
Total	<u>\$ 9,771,827</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 \$112,263 and \$108,513 in 2020 and 2019, respectively.

Future minimum payments are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 104,160
2022	89,040
2023	<u>84,540</u>
Total	<u>\$ 277,740</u>

8. NET ASSETS

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

	<u>2020</u>	<u>2019</u>
Time restriction	\$ 6,416,640	\$ 7,240,864
Capital campaign	2,348,381	2,175,000
Rescue and rehabilitation for small dogs	100,000	
Seniors for Seniors	78,756	91,585
Education	55,000	20,000
Veterinarian suite renovation	6,119	16,954
Other	<u>70,381</u>	<u>100,050</u>
Total	<u>\$ 9,075,277</u>	<u>\$ 9,644,453</u>

The Board of Directors has designated \$4,000,000 at both December 31, 2020 and 2019 of Muttville's net assets without donor restrictions as a reserve for the acquisition and construction of a headquarters facility.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

9. IN-KIND CONTRIBUTIONS

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

	<u>2020</u>	<u>2019</u>
Rent	\$ 246,141	\$ 309,208
Professional services	204,517	229,206
Veterinary services	180,990	328,649
Merchandise	32,398	64,619
Advertising	<u>13,269</u>	<u>951,174</u>
Total	<u>\$ 677,315</u>	<u>\$ 1,882,856</u>

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 \$69,300 and \$66,000 for the years ended December 31, 2020 and 2019, respectively.

11. RISKS AND UNCERTAINTIES

As a result of the ongoing COVID-19 pandemic, economic uncertainties have arisen which may have a negative impact on the Organization through business disruption or other decreases in revenue. Although the disruption is expected to be temporary, the Organization may experience some revenue losses and cash flow delays due to the impact of the pandemic. However, the related financial impact and duration cannot be reasonably estimated at this time.