

MUTTVILLE

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

**YEARS ENDED
DECEMBER 31, 2022 AND 2021**

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, 2022 and 2021, 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, 2022 and 2021, 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

July 27, 2023

MUTTVILLE

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,857,291	\$ 14,578,932
Short-term investments	16,111,194	
Current portion of contributions receivable	1,153,163	3,469,629
Current portion of split-interest agreement assets	1,001,250	1,001,250
Prepaid expenses	<u>97,474</u>	<u>106,056</u>
Total current assets	23,220,372	19,155,867
NON-CURRENT ASSETS:		
Contributions receivable, net	5,242,139	5,743,769
Split-interest agreement assets, net	6,072,978	4,569,736
Property and equipment, net	<u>18,743,907</u>	<u>16,120,063</u>
TOTAL ASSETS	<u>\$ 53,279,396</u>	<u>\$ 45,589,435</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 84,031	\$ 247,453
Accrued expenses	258,780	188,549
Current portion of long-term debt	<u>277,747</u>	<u>267,807</u>
Total current liabilities	620,558	703,809
LONG-TERM DEBT, Net	<u>8,968,033</u>	<u>9,245,789</u>
Total liabilities	<u>9,588,591</u>	<u>9,949,598</u>
NET ASSETS:		
Without donor restrictions:		
Board designated reserve for facility acquisition/construction	4,000,000	4,000,000
Undesignated	13,279,059	8,944,903
With donor restrictions	<u>26,411,746</u>	<u>22,694,934</u>
Total net assets	<u>43,690,805</u>	<u>35,639,837</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 53,279,396</u>	<u>\$ 45,589,435</u>

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

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STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Contributions and grants	\$ 6,625,844	\$ 4,703,199
Fundraising event revenues (net of direct benefit to donors of \$116,209 in 2022 and \$91,601 in 2021)	1,189,130	1,093,842
In-kind contributions	835,634	868,373
Other income	58,582	15,368
Net assets released from restrictions	<u>1,593,975</u>	<u>1,417,084</u>
Total revenues	<u>10,303,165</u>	<u>8,097,866</u>
EXPENSES:		
Program services:		
Animal care and adoption	<u>4,036,070</u>	<u>3,712,517</u>
Supporting services:		
Fundraising	1,250,349	1,121,948
General and administrative	<u>682,590</u>	<u>421,391</u>
Total supporting services	<u>1,932,939</u>	<u>1,543,339</u>
Total expenses	<u>5,969,009</u>	<u>5,255,856</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>4,334,156</u>	<u>2,842,010</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions and grants	5,310,787	15,036,741
Net assets released from restrictions	<u>(1,593,975)</u>	<u>(1,417,084)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>3,716,812</u>	<u>13,619,657</u>
INCREASE IN NET ASSETS	8,050,968	16,461,667
NET ASSETS, Beginning of Year	<u>35,639,837</u>	<u>19,178,170</u>
NET ASSETS, End of Year	<u>\$ 43,690,805</u>	<u>\$ 35,639,837</u>

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

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STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>				<u>2021</u>			
	<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	\$ 1,890,439	\$ 609,032	\$ 315,913	\$ 2,815,384	\$ 1,371,887	\$ 451,480	\$ 236,962	\$ 2,060,329
Animal care	880,636			880,636	1,610,146			1,610,146
Professional fees	375,622	110,167	51,377	537,166	213,032	127,946	51,853	392,831
Supplies	342,957	37,992	20,137	401,086	167,411	32,627	90,847	290,885
Facilities and equipment rentals	356,286	11,599	19,052	386,937	278,739	20,607	18,828	318,174
Bad debt expense			250,000	250,000				
Printing	28,770	153,740	5	182,515	387	154,358		154,745
Events		177,489		177,489		165,762		165,762
Postage and shipping	15,765	61,217	241	77,223	1,172	84,402	25	85,599
Bank fees		64,931	9,568	74,499		55,996	10,597	66,593
Depreciation	51,430	10,567	8,454	70,451	42,473	8,728	6,982	58,183
Telecommunications	14,464	3,470	393	18,327	14,023	5,529	524	20,076
Interest							1,130	1,130
Other expenses	79,701	10,145	7,450	97,296	13,247	14,513	3,643	31,403
Total	<u>\$ 4,036,070</u>	<u>\$ 1,250,349</u>	<u>\$ 682,590</u>	<u>\$ 5,969,009</u>	<u>\$ 3,712,517</u>	<u>\$ 1,121,948</u>	<u>\$ 421,391</u>	<u>\$ 5,255,856</u>

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

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STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 8,050,968	\$ 16,461,667
Reconciliation to net cash provided by operating activities:		
Donated property and equipment	(92,440)	(134,912)
Receipt of donated investments	(1,803,223)	(340,303)
Depreciation	70,451	58,183
Loss on disposal of property and equipment	74	21,616
Net realized and unrealized gain on investments	(38,158)	(29,105)
Changes in:		
Contributions and grants receivable	2,818,096	(9,033,095)
Charitable lead annuity trust receivable	867,642	845,654
Prepaid expenses	8,582	(9,752)
Split-interest agreement asset	(2,370,884)	
Accounts payable	(163,422)	93,427
Accrued expenses	70,231	94,682
Net cash provided by operating activities	<u>7,417,917</u>	<u>8,028,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(16,808,650)	
Proceeds from sale of investments	2,538,837	369,408
Purchases of property and equipment	(2,259,191)	(355,780)
Interest capitalized as property and equipment	(342,738)	(352,323)
Net cash used in investing activities	<u>(16,871,742)</u>	<u>(338,695)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	<u>(267,816)</u>	<u>(258,231)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,721,641)	7,431,136
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>14,578,932</u>	<u>7,147,796</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 4,857,291</u>	<u>\$ 14,578,932</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 342,738</u>	<u>\$ 353,453</u>

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

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 \$90,000 and \$120,000 at December 31, 2022 and 2021, respectively.

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 \$4,019,859 and \$8,762,198 as of December 31, 2022 and 2021, 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.

Short term investments are stated at fair value. All investments are classified within Level 1 of the fair value hierarchy and consist of US treasury bonds/bills.

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, 2022 and 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 both December 31, 2022 and 2021.

Contributions receivable at December 31, 2022 of \$1,152,749 are expected to be collected within one year and the remaining \$5,429,547 (net of \$187,408 discount) are expected to be collected within one to five years.

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.

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.

Split-interest agreement assets are stated at fair value.

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

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.

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 – Effective for the year ended December 31, 2022, and applied retrospectively, Muttville implemented Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received.

Subsequent events have been reviewed through July 27, 2023, the date the financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2022, that require recognition or disclosure in such financial statements.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,857,291	\$ 14,578,932
Short-term investments	16,111,194	
Contributions receivable	6,395,302	9,213,398
Charitable lead annuity trust receivable, net	4,703,344	5,570,986
Split-interest agreement asset	2,370,884	
Total financial assets	<u>34,438,015</u>	<u>29,363,316</u>
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors for time or purpose	(25,410,496)	(21,693,684)
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>\$ 5,027,519</u>	<u>\$ 3,669,632</u>

As part of the organization's liquidity management, Muttville structures its financial assets to be available as its general expenditures, liabilities and other obligations come due while also striving to maximize the investment of its available funds. As part of this policy, amounts that exceed 3-6 months of normal operating requirements are invested in short-term fixed-income instruments and money market accounts that can be readily liquidated for operating and capital needs. In addition to the financial assets available to meet operating and capital needs over the next twelve months, Muttville operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

4. PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Land and building	\$ 15,033,109	\$ 15,033,109
Furniture and equipment	379,124	312,694
Leasehold improvements	122,887	122,887
Vehicles	55,294	29,000
Construction in progress	3,485,530	915,181
Total	<u>19,075,944</u>	<u>16,412,871</u>
Less accumulated depreciation	<u>(332,037)</u>	<u>(292,808)</u>
Total	<u>\$ 18,743,907</u>	<u>\$ 16,120,063</u>

During 2020, a new facility was purchased for Muttville's headquarters. The building has not been placed in service as of December 31, 2022.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

5. SPLIT-INTEREST AGREEMENT ASSETS

Split-interest agreement assets include the estimated fair value of Muttville's interest in a charitable lead annuity trust for which Muttville is the lead beneficiary as well as a perpetual trust in which Muttville has the irrevocable right to receive income on trust assets in perpetuity.

Under the terms of the charitable lead annuity trust, Muttville is to receive approximately \$1,000,000 annually over a ten year period beginning in 2018. The related contribution receivable and revenue were recorded at the estimated fair value using a discount rate of 2.6% at both December 31, 2022 and 2021. The estimated fair value of the interest in the perpetual trust was determined with present value techniques using projected investment returns consistent with the composition of the asset portfolios, estimated future cash disbursements and a discount rate of 5.2% at December 31, 2022.

Muttville's split-interest agreement assets 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.

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 5,570,986	\$ 6,416,640
Payout of charitable lead annuity trust	(1,001,250)	(1,001,250)
Contribution	2,370,884	
Change in fair value of split-interest agreement assets	<u>133,608</u>	<u>155,596</u>
Ending balance	<u>\$ 7,074,228</u>	<u>\$ 5,570,986</u>

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 with a final balloon payment of \$7,073,114 due February 2030. Interest incurred and capitalized for the years ended December 31, 2022 and 2021 totaled \$342,738 and \$352,323, respectively. Muttville has met all loan covenants at December 31, 2022 and 2021.

The future annual payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2023	\$ 277,747
2024	287,134
2025	298,714
2026	309,801
2027	321,300
Thereafter	<u>7,751,084</u>
Total	<u>\$ 9,245,780</u>

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

7. NET ASSETS

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

	<u>2022</u>	<u>2021</u>
Time restricted	\$ 4,703,344	\$ 5,570,986
Purpose restricted:		
Capital campaign	19,075,249	16,888,926
Seniors for Seniors	124,438	124,805
Veterinarian suite renovation	11,119	11,119
Other	126,712	99,098
Restricted into perpetuity:		
Split-interest agreement asset – interest in a perpetual trust	<u>2,370,884</u>	<u> </u>
Total	<u>\$ 26,411,746</u>	<u>\$ 22,694,934</u>

The Board of Directors has designated \$4,000,000 at both December 31, 2022 and 2021 of Muttville's net assets without donor restrictions as a reserve for the acquisition and construction of a headquarters facility.

8. IN-KIND CONTRIBUTIONS

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

	<u>2022</u>	<u>2021</u>
Rent	\$ 328,368	\$ 277,680
Merchandise	241,560	167,439
Professional services	171,883	216,650
Veterinary services	90,823	206,604
Other	<u>3,000</u>	<u> </u>
Total	<u>\$ 835,634</u>	<u>\$ 868,373</u>

In-kind contributions provide support for Muttville's operations, events and development of the new headquarters under construction. No in-kind contributions were restricted during 2022 or 2021.

9. 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 \$100,000 and \$79,844 for the years ended December 31, 2022 and 2021, respectively.