

**TONY LA RUSSA'S ANIMAL  
RESCUE FOUNDATION**

*(A California Nonprofit Public Benefit Corporation)*

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
YEARS ENDED JUNE 30, 2022 AND 2021**

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

*(A California Nonprofit Public Benefit Corporation)*

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

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To the Board of Directors  
Tony La Russa's Animal Rescue Foundation  
Walnut Creek, California

## INDEPENDENT AUDITOR'S REPORT

### Opinion

We have audited the accompanying financial statements of Tony La Russa's Animal Rescue Foundation, a California nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 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 Tony La Russa's Animal Rescue Foundation as of June 30, 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 Tony La Russa's Animal Rescue Foundation 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 Tony La Russa's Animal Rescue Foundation'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 Tony La Russa's Animal Rescue Foundation'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 Tony La Russa's Animal Rescue Foundation'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.

*Lindquist, von Husen and Joyce LLP*

January 26, 2023

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

|   | <u>2022</u>          | <u>2021</u>          |
|---|----------------------|----------------------|
| ASSETS  |                      |                      |
| Current assets:   |                      |                      |
| Cash  | \$ 204,403           | \$ 316,288           |
| Cash savings  | 3,819,819            | 2,489,797            |
| Pledges receivable – current portion (Note 3)                         | 366,500              | 1,385,629            |
| Accounts receivable – net of allowance for doubtful accounts (Note 2) | 40,272               | 19,787               |
| Employee retention credit receivable (Note 4)                         | 1,794,678            | -                    |
| Inventory – net (Note 7)  | 119,909              | 124,934              |
| Prepaid expenses  | 244,393              | 142,399              |
| Total current assets  | <u>6,589,974</u>     | <u>4,478,834</u>     |
| Investments (Note 5)  | 45,866,542           | 50,100,575           |
| Beneficial interest in assets held by Trustee (Note 5)                | 239,541              | 363,922              |
| Pledges receivable – net of current portion and discount (Note 3)     | 92,320               | 143,468              |
| Deposits  | 2,685                | 2,685                |
| Construction in progress (Note 6)                                     | -                    | 1,100                |
| Property and equipment – net (Note 6)                                 | 27,127,657           | 27,746,580           |
| Intangible asset – net (Note 8)                                       | 3,535,283            | 3,820,003            |
| Total assets  | <u>\$ 83,454,002</u> | <u>\$ 86,657,167</u> |
| LIABILITIES AND NET ASSETS  |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable and accrued expenses                                 | \$ 104,169           | \$ 131,672           |
| Accrued compensation  | 385,996              | 307,682              |
| Deferred revenue  | 202,700              | 198,010              |
| Total current liabilities   | <u>692,865</u>       | <u>637,364</u>       |
| PPP note payable (Note 11)  | -                    | 781,570              |
| Interest payable (Note 11)  | -                    | 9,119                |
| Total liabilities   | <u>692,865</u>       | <u>1,428,053</u>     |
| Net assets:   |                      |                      |
| Without donor restrictions (Note 4 and 13)                            | 75,897,876           | 78,477,353           |
| With donor restrictions (Note 12)                                     | 6,863,261            | 6,751,761            |
| Total net assets  | <u>82,761,137</u>    | <u>85,229,114</u>    |
| Total liabilities and net assets                                      | <u>\$ 83,454,002</u> | <u>\$ 86,657,167</u> |

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

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2022 AND 2021

|  | 2022                              |                                |               | 2021                              |                                |               |
|--|-----------------------------------|--------------------------------|---------------|-----------------------------------|--------------------------------|---------------|
|  | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i>  | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i>  |
| Operating revenues and other support:  |                                   |                                |               |                                   |                                |               |
| Contributions  | \$ 5,110,017                      | \$ 1,754,158                   | \$ 6,864,175  | \$ 8,375,404                      | \$ 506,047                     | \$ 8,881,451  |
| Capital campaign expenses  | -                                 | -                              | -             | (27,421)                          | -                              | (27,421)      |
| Special events – net of expenses of \$209,805 and \$180,646, respectively, for 2022 and 2021 | 1,046,579                         | -                              | 1,046,579     | 517,063                           | -                              | 517,063       |
| Corporate sponsorships   | 566,461                           | -                              | 566,461       | 611,642                           | -                              | 611,642       |
| Program fees   | 478,639                           | -                              | 478,639       | 367,918                           | -                              | 367,918       |
| Retail sales   | 506,480                           | -                              | 506,480       | 345,339                           | -                              | 345,339       |
| Employee retention credit (Note 4)   | 1,794,678                         | -                              | 1,794,678     | -                                 | -                              | -             |
| PPP loan and interest forgiveness (Note 11)  | 790,689                           | -                              | 790,689       | -                                 | -                              | -             |
| Other revenue  | 53,637                            | -                              | 53,637        | 50,883                            | -                              | 50,883        |
| Net assets released from restrictions (Note 12)  | 1,353,237                         | (1,353,237)                    | -             | 14,807,772                        | (14,807,772)                   | -             |
| Total operating revenues and other support   | 11,700,417                        | 400,921                        | 12,101,338    | 25,048,600                        | (14,301,725)                   | 10,746,875    |
| Operating expenses:  |                                   |                                |               |                                   |                                |               |
| Program services   | 7,251,159                         | -                              | 7,251,159     | 5,497,733                         | -                              | 5,497,733     |
| Supportive services:   |                                   |                                |               |                                   |                                |               |
| Management and general   | 690,011                           | -                              | 690,011       | 675,645                           | -                              | 675,645       |
| Fundraising  | 588,035                           | -                              | 588,035       | 531,325                           | -                              | 531,325       |
| Total operating expenses   | 8,529,205                         | -                              | 8,529,205     | 6,704,703                         | -                              | 6,704,703     |
| Change in net assets from operations   | 3,171,212                         | 400,921                        | 3,572,133     | 18,343,897                        | (14,301,725)                   | 4,042,172     |
| Other changes:   |                                   |                                |               |                                   |                                |               |
| Net investment income (loss) including endowment funds (Note 4 and 12)                       | (5,750,689)                       | (289,421)                      | (6,040,110)   | 8,764,898                         | 1,030,262                      | 9,795,160     |
| Total other changes  | (5,750,689)                       | (289,421)                      | (6,040,110)   | 8,764,898                         | 1,030,262                      | 9,795,160     |
| Change in net assets   | (2,579,477)                       | 111,500                        | (2,467,977)   | 27,108,795                        | (13,271,463)                   | 13,837,332    |
| Net assets, beginning of year  | 78,477,353                        | 6,751,761                      | 85,229,114    | 51,368,558                        | 20,023,224                     | 71,391,782    |
| Net assets, end of year  | \$ 75,897,876                     | \$ 6,863,261                   | \$ 82,761,137 | \$ 78,477,353                     | \$ 6,751,761                   | \$ 85,229,114 |

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

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2022 AND 2021

|  | 2022                                     |                   |                              |                             |                               |                            |                                   |                    |                     |
|--|--|-------------------|------------------------------|-----------------------------|-------------------------------|----------------------------|-----------------------------------|--------------------|---------------------|
|  | <i>Program Services</i>                  |                   |                              |                             |                               | <i>Supportive Services</i> |                                   |                    |                     |
|  | <i>Animal Care<br/>and<br/>Adoptions</i> | <i>Training</i>   | <i>Veterinary<br/>Clinic</i> | <i>Humane<br/>Education</i> | <i>Community<br/>Outreach</i> | <i>Total<br/>Program</i>   | <i>Management<br/>and General</i> | <i>Fundraising</i> | <i>Total</i>        |
| Personnel                                  | \$ 1,593,513                             | \$ 181,709        | \$ 1,428,883                 | \$ -                        | \$ 839,871                    | \$ 4,043,976               | \$ 406,993                        | \$ 320,839         | \$ 4,771,808        |
| Professional services                      | 68,569                                   | 11,128            | 92,324                       | -                           | 56,953                        | 228,974                    | 98,428                            | 17,199             | 344,601             |
| Occupancy                                  | 106,609                                  | 23,978            | 178,801                      | 14,430                      | 89,378                        | 413,196                    | 22,999                            | 13,380             | 449,575             |
| Equipment rental, repairs and maintenance  | 49,979                                   | 3,635             | 42,451                       | -                           | 43,299                        | 139,364                    | 45,997                            | 12,091             | 197,452             |
| Animal care and supplies                   | 163,777                                  | 125               | 273,623                      | -                           | 224,453                       | 661,978                    | -                                 | -                  | 661,978             |
| Supplies                                   | 6,349                                    | 564               | 6,660                        | -                           | 2,405                         | 15,978                     | 17,805                            | 742                | 34,525              |
| Printing and publications                  | 74,257                                   | 11,621            | 96,975                       | -                           | 62,659                        | 245,512                    | 3,129                             | 108,794            | 357,435             |
| Postage                                    | 113                                      | -                 | 5,655                        | -                           | 647                           | 6,415                      | 6,522                             | 3,067              | 16,004              |
| Insurance                                  | 58,320                                   | 13,511            | 14,788                       | 9,038                       | 35,068                        | 130,725                    | 7,102                             | 3,022              | 140,849             |
| Cost of goods sold                         | 40,637                                   | -                 | 265                          | -                           | -                             | 40,902                     | -                                 | -                  | 40,902              |
| Advertising and promotion                  | 48,510                                   | 10,898            | 54,069                       | -                           | 41,579                        | 155,056                    | 1,312                             | 45,889             | 202,257             |
| Other expenses                             | 2,680                                    | 34                | 144                          | -                           | 51,175                        | 54,033                     | 16,536                            | -                  | 70,569              |
| Bad debts                                  | -  | -                 | 1,597                        | -                           | 11,845                        | 13,442                     | -                                 | -                  | 13,442              |
| Travel, conferences, and education         | 11,678                                   | 70                | 6,500                        | -                           | 13,852                        | 32,100                     | 13,053                            | 1,590              | 46,743              |
| Taxes, licenses and fees                   | 21,777                                   | 2,351             | 21,815                       | 1,317                       | 7,030                         | 54,290                     | 2,926                             | 36,010             | 93,226              |
| Depreciation                               | 329,359                                  | 56,559            | 93,719                       | 33,136                      | 233,229                       | 746,002                    | 17,549                            | 25,412             | 788,963             |
| Amortization (Note 8)                      | 118,859                                  | 20,411            | 33,821                       | 11,958                      | 84,167                        | 269,216                    | 15,504                            | -                  | 284,720             |
| Loss on disposal of property and equipment | -  | -                 | -                            | -                           | -                             | -                          | 14,156                            | -                  | 14,156              |
| <b>Total expenses</b>                      | <b>\$ 2,694,986</b>                      | <b>\$ 336,594</b> | <b>\$ 2,352,090</b>          | <b>\$ 69,879</b>            | <b>\$ 1,797,610</b>           | <b>\$ 7,251,159</b>        | <b>\$ 690,011</b>                 | <b>\$ 588,035</b>  | <b>\$ 8,529,205</b> |

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

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2022 AND 2021

|   | 2021                            |                   |                      |                     |                       | Total<br>Program    | Supportive Services       |                   | Total               |
|---|---------------------------------|-------------------|----------------------|---------------------|-----------------------|---------------------|---------------------------|-------------------|---------------------|
|   | Program Services                |                   |                      | Supportive Services |                       |                     | Management<br>and General | Fundraising       |                     |
|   | Animal Care<br>and<br>Adoptions | Training          | Veterinary<br>Clinic | Humane<br>Education | Community<br>Outreach |                     |                           |                   |                     |
| Personnel                                 | \$ 1,299,414                    | \$ -              | \$ 1,106,025         | \$ -                | \$ 563,609            | \$ 2,969,048        | \$ 364,152                | \$ 350,501        | \$ 3,683,701        |
| Professional services                     | 32,505                          | -                 | 23,753               | -                   | 10,302                | 66,560              | 117,778                   | 9,797             | 194,135             |
| Occupancy                                 | 78,684                          | 16,308            | 155,800              | 10,244              | 50,419                | 311,455             | 20,377                    | 14,245            | 346,077             |
| Equipment rental, repairs and maintenance | 54,633                          | -                 | 50,370               | -                   | 92,219                | 197,222             | 16,408                    | 20,534            | 234,164             |
| Animal care and supplies                  | 107,762                         | -                 | 233,285              | -                   | 260,452               | 601,499             | -                         | -                 | 601,499             |
| Supplies                                  | 3,297                           | -                 | 5,600                | -                   | 676                   | 9,573               | 4,849                     | 738               | 15,160              |
| Printing and publications                 | 67,313                          | -                 | 73,915               | -                   | 38,060                | 179,288             | 5,702                     | 69,950            | 254,940             |
| Postage                                   | 1,583                           | -                 | 13,892               | -                   | 740                   | 16,215              | 1,871                     | 1,306             | 19,392              |
| Insurance                                 | 52,398                          | 11,970            | 13,129               | 7,641               | 29,694                | 114,832             | 6,005                     | 2,554             | 123,391             |
| Cost of goods sold                        | 21,997                          | -                 | 2,747                | -                   | -                     | 24,744              | -                         | -                 | 24,744              |
| Advertising and promotion                 | 34,102                          | -                 | 39,029               | -                   | 37,666                | 110,797             | 190                       | 28,377            | 139,364             |
| Other expenses                            | 608                             | -                 | -                    | -                   | 30,700                | 31,308              | 100,294                   | -                 | 131,602             |
| Travel, conferences, and education        | 18,164                          | -                 | 10,349               | -                   | 5,158                 | 33,671              | 2,540                     | 529               | 36,740              |
| Taxes, licenses and fees                  | 23,741                          | 2,544             | 20,224               | 1,624               | 7,976                 | 56,109              | 70                        | 25,796            | 81,975              |
| Depreciation                              | 221,571                         | 55,241            | 87,086               | 37,012              | 101,940               | 502,850             | 15,434                    | 6,998             | 525,282             |
| Amortization (Note 7)                     | 120,099                         | 29,942            | 47,204               | 20,062              | 55,255                | 272,562             | 12,159                    | -                 | 284,721             |
| Interest expense (Note 10)                | -                               | -                 | -                    | -                   | -                     | -                   | 7,816                     | -                 | 7,816               |
| <b>Total expenses</b>                     | <b>\$ 2,137,871</b>             | <b>\$ 116,005</b> | <b>\$ 1,882,408</b>  | <b>\$ 76,583</b>    | <b>\$ 1,284,866</b>   | <b>\$ 5,497,733</b> | <b>\$ 675,645</b>         | <b>\$ 531,325</b> | <b>\$ 6,704,703</b> |

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



TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

|   | 2022                | 2021                |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | \$ (2,467,977)      | \$ 13,837,332       |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Depreciation  | 788,963             | 525,282             |
| Amortization  | 284,720             | 284,721             |
| Donation of stock   | (70,651)            | (341,388)           |
| Donation of beneficial interest in assets held by Trustee                                   | -                   | (332,418)           |
| Change in beneficial interest in assets held by Trustee                                     | 124,381             | (31,504)            |
| Unrealized (gain) loss on investments   | 7,748,500           | (7,727,690)         |
| Realized gain on sale of investments  | (279,372)           | (1,136,679)         |
| Loss on disposal of property and equipment  | 14,156              | -                   |
| Provision for bad debts   | (1,597)             | 2,138               |
| Provision for inventory adjustments   | 438                 | 7,043               |
| PPP loan and interest forgiveness   | (790,689)           | -                   |
| (Increase) decrease in assets:  |                     |                     |
| Pledges receivable – net  | 1,070,277           | (106,123)           |
| Accounts receivable – net   | (18,888)            | 101,218             |
| Employee retention credit receivable  | (1,794,678)         | -                   |
| Inventory   | 4,587               | 8,169               |
| Prepaid expenses  | (101,994)           | (4,177)             |
| Deposits  | -                   | 825                 |
| Increase (decrease) in liabilities:   |                     |                     |
| Accounts payable and accrued expenses   | (27,503)            | (188,487)           |
| Construction payable  | -                   | (1,002,204)         |
| Accrued compensation  | 78,314              | 42,547              |
| Deferred revenue  | 4,690               | 510                 |
| Interest payable  | -                   | 7,816               |
| Net cash provided by operating activities   | <u>4,565,677</u>    | <u>3,946,931</u>    |
| Cash flows from investing activities:   |                     |                     |
| Net increase in investments   | (3,164,444)         | (2,552,812)         |
| Purchases of property and equipment   | (183,096)           | (6,244,000)         |
| Net cash used in investing activities   | <u>(3,347,540)</u>  | <u>(8,796,812)</u>  |
| Net increase (decrease) in cash and restricted cash   | 1,218,137           | (4,849,881)         |
| Cash and restricted cash, beginning of year   | <u>2,806,085</u>    | <u>7,655,966</u>    |
| Cash and restricted cash, end of year   | <u>\$ 4,024,222</u> | <u>\$ 2,806,085</u> |

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

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

Tony La Russa's Animal Rescue Foundation (ARF) was incorporated in California in June 1991 as a nonprofit public benefit corporation for the purpose of ensuring humane treatment to domesticated animals and to bring people and animals together to enrich each other's lives.

ARF provides rescue, veterinary medical care, population control services and adoption services for homeless cats and dogs; veterinary medical services and pet food sharing for low-income families as well as low cost spay/neuter programs for the community; community outreach programs for children and teens promote the human/animal bond with a focus on those attending Title One schools as well as visits to people with disabilities or illness and adoptions for military veterans (Pets and Vets program).

The Pets and Vets Center in Walnut Creek, California was placed in service in April 2021, to serve as a safe space for veteran-dog teams to gather, learn, train, and socialize with group and simulated home training rooms, program offices, kennels and other gathering space.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Method

ARF uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

ARF reports information regarding its financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of ARF.
- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as *net assets released from restrictions*. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

*(A California Nonprofit Public Benefit Corporation)*

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

Cash, Cash Savings, Cash Restricted for Capital Campaign and Cash Equivalents

Cash is defined as cash in demand deposit account as well as cash on hand. Cash restricted for the Capital Campaign is defined as cash reserved to be expended for capital campaign purposes. ARF occasionally maintains cash and investments at a brokerage firm in excess of the Security Investor Protection Corporation limit of \$500,000. ARF has not experienced any losses in such accounts.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents.

Revenue Recognition

Contributions:

Contributions are recognized as revenue when they are unconditionally communicated. Contributions consist principally of donations from individuals and other organizations. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions.

Promises to Give:

Unconditional promises to give are recognized as contribution revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Contributions of Long-Lived Assets:

Gifts of long-lived assets, such as equipment, are reported as unrestricted net assets support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire or construct long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Contributed Services and Donated Investments:

Contributed services are stated at their estimated fair value, if ordinarily purchased and of a specialized nature.

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

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Revenue from Contracts:

Program fees, including adoption and clinic fees among other programs, and retail sales are primarily comprised of an exchange element based on the value of benefits provided and are recognized as revenue when the related performance obligations are satisfied. Performance obligations represent the specified services provided to customers under such contracts and generally consist of a single performance obligation which is satisfied when the service is provided or the event has occurred.

Deferred Revenue

Deferred revenue primarily includes advance fees received in connection with a contract with Purina for advertisement and media appearances and other funds received in advance for programs in subsequent fiscal years. Revenue will be recognized over the period in which the related performance obligations are satisfied.

Accounts Receivable

Accounts receivable represents amounts billed but not yet collected for services provided. ARF records an allowance for doubtful accounts based on a review of outstanding accounts receivable, historical collection information, and existing economic conditions. The allowance for doubtful accounts was \$1,910 and \$313 as of June 30, 2022 and 2021, respectively.

Pledges Receivable

Pledges receivable are recorded as support when the pledge is unconditionally communicated. All pledges are valued at their estimated net present value at June 30, 2022 and 2021 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been provided.

Inventory

Inventory consists of purchased and donated items for auction or resale and are recorded at cost or fair value at the date of purchase or donation, respectively. Memorabilia items are discounted by 50% to approximate the lower of cost or market based on the estimated fair market value of the items. Goods donated to the thrift shop are not reflected in the financial statements since no objective basis is available to measure their values.

Intangible Assets

Intangible assets consist of a donated suite license agreement which is recorded at fair value and amortized on a straight-line basis over the 15-year term of the lease. The donated suite lease is reviewed for impairment at least annually.

Beneficial Interest in Assets Held by the Trustee

Beneficial interests in assets held by the Trustee are recorded with or without donor restrictions dependent on the existence of donor-imposed restrictions. Beneficial interest in assets held by the Trustee are reported at fair value and changes in the value of the beneficial interest are reported as contribution income.

Investments

Investments consist of money market funds, exchange traded funds, bond funds, equities, and equity funds, and are reported at fair value in the statements of financial position. Realized and unrealized gains and losses on investments are included in net investment return including endowment funds in the statements of activities. Investment income and gains or losses are reflected as increases or decreases in the net assets without donor restrictions if the restrictions are met (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the investment income and gains or losses are recognized.

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Under accounting principles generally accepted in the United States of America, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

Accounting principles generally accepted in the United States of America establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of ARF. Unobservable inputs, if any, reflects ARF's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that ARF has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from investment to investment and is affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Property and Equipment

Property and equipment are stated at cost of acquisition or construction. Donated property and equipment are recorded at their estimated fair market values at the date of donation. The costs of maintenance and repairs below \$5,000 that neither significantly add to the permanent value of property nor prolong its intended useful life is charged to expense as incurred. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets.

The useful lives of the assets are estimated as follows:

|                           |                     |
|---------------------------|---------------------|
| Building and improvements | Various to 39 years |
| Furniture and fixtures    | 5 to 7 years        |
| Vehicles                  | 3 to 10 years       |
| Machinery and equipment   | 3 to 5 years        |
| Website development costs | 10 years            |
| Leasehold improvements    | 7 years             |

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The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statements of activities.

Construction in Progress

ARF incurred various costs during the construction period of the new Pets and Vets Center. Such costs included architectural fees to draft plans, permits, and construction management fees, as well as construction costs. ARF recorded these costs as assets (construction in progress) until the Pets and Vets Center was placed in service in April 2021. Construction in progress is not depreciated until the completion of the construction.

Advertising and Promotion Costs

Advertising and promotion costs are generally recorded as expenses when the cost is incurred. Such costs totaled \$202,257 and \$139,364 for the years ended June 30, 2022 and 2021, respectively.

Income Taxes

ARF is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

ARF believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. ARF's federal and state information returns for the years 2018 through 2021 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supportive services have been summarized on a functional basis in the statements of activities and statements of functional expenses. Salaries and related expenses are allocated based on the actual time spent by employees on various activities. Occupancy and general expenses are allocated based on space usage by each function. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' actual time incurred and on usage of resources. Directly identifiable expenses are charged to programs and supporting services.

Fundraising Cost

Fundraising costs are generally recorded as expenses when the fundraising event takes place which include costs associated with marketing, special events and grant writing. Such costs totaled \$807,011 and \$711,971 for the years ended June 30, 2022 and 2021, respectively, of which \$209,805 and \$180,646, respectively, was related to special events. The balances of \$597,206 and \$531,325 at June 30, 2022 and 2021, respectively, have been reported as fundraising expenses in the statements of activities.

Subsequent Events

Management has evaluated subsequent events through January 26, 2023, the date on which the financial statements were available to be issued.

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**NOTE 3 – PLEDGES RECEIVABLE**

Pledges receivable at June 30, 2022 and 2021 were expected to be collected in the following periods:

|                                 | 2022       | 2021         |
|---------------------------------|------------|--------------|
| In one year or less:            |            |              |
| Capital campaign                | \$ 105,000 | \$ 609,150   |
| Operations                      | 261,500    | 776,479      |
| Total in one year or less       | 366,500    | 1,385,629    |
| Between one to five years:      |            |              |
| Capital campaign                | 25,000     | 90,000       |
| Operations                      | 70,000     | 60,000       |
| Total between one to five years | 95,000     | 150,000      |
| Total pledges receivable        | 461,500    | 1,535,629    |
| Present value discount          | (2,680)    | (6,532)      |
| Total                           | \$ 458,820 | \$ 1,529,097 |

At June 30, 2022 and 2021, the discount rate was 4.75% and 3.25%, respectively, based on the federal prime rate.

The capital campaign pledges are related to ARF's construction of a Pets and Vets Center that serves as the national headquarters for shelter to service dog training. The goal of the Center is to pair service dogs with Veterans who are struggling to readjust to civilian life due to service related mental health conditions including post-traumatic brain injury, depression and anxiety.

**NOTE 4 – EMPLOYEE RETENTION CREDIT RECEIVABLE**

ARF is eligible for the Employee Retention Credit ("ERC") under the CARES Act. Grants receivable for the ERC at June 30, 2022 are \$1,794,678 which represents refunds due on the Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for the quarters ended June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021, June 30, 2021, September 30, 2021 and December 31, 2021.

**NOTE 5 – INVESTMENTS**

ARF's investment funds are managed by a third-party financial advisor. Based on the fund's time horizon, risk tolerance, performance expectations, and asset class preferences, an optimal portfolio was identified. ARF's financial advisors shall pursue a "Diversified Market-Neutral Strategy," consistent with proven investment practices. Consequently, the strategic asset allocation of the fund assets shall be as follows until ARF's board and its financial advisors elect to pursue an alternative strategy:

- Mid/Small and Large Capitalization Equity at 42%
- International equity at 18%
- Taxable bonds at 40%.

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The funds are rebalanced at least on an annual basis to ensure that the funds are adhering to ARF's investment objectives:

- Objective #1: To obtain the highest level of return for the Investment Committee's desired level of risk in a manner prudent for a non-profit foundation.
- Objective #2: To limit risk exposure through diversification of asset classes and investment vehicles within asset classes.
- Objective #3: To establish policies based on total return rather than current income. This provides the greatest investment flexibility and therefore greatest opportunity for growth of assets.
- Objective #4: To maintain the purchasing power of the fund by achieving appropriate inflation-adjusted returns. The Investment Committee desires to maintain the level of services in relation to average cost increases. This requires establishing a spending rate of no more than 7%.
- Objective #5: Apply a smoothing rule to mitigate the effects of short-term market volatility on spending.
- Objective #6: To control the costs of administering and managing the fund.

Investment balances have been presented as follows on the statements of financial position:

|              | 2022                 | 2021                 |
|--------------|----------------------|----------------------|
| Cash savings | \$ 3,819,819         | \$ 2,489,797         |
| Investments  | 45,866,542           | 50,100,575           |
| Total        | <u>\$ 49,686,361</u> | <u>\$ 52,590,372</u> |

The investment return for 2022 and 2021 consisted of the following:

|   | 2022                  | 2021                |
|---|-----------------------|---------------------|
| Interest and dividend income              | \$ 1,494,473          | \$ 991,087          |
| Net realized gain from sale of securities | 279,372               | 1,136,679           |
| Unrealized gain (loss)                    | (7,748,500)           | 7,727,690           |
| Sub-total                                 | (5,974,655)           | 9,855,456           |
| Less: investment fees                     | (65,455)              | (60,296)            |
| Total                                     | <u>\$ (6,040,110)</u> | <u>\$ 9,795,160</u> |



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ARF held the following investments at fair value in two brokerage accounts at June 30, 2022 and 2021:

|                       | 2022                 |  | 2021                 |  |
|-----------------------|----------------------|--|----------------------|--|
|                       | Cost                 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Cost                 | Quoted Prices in Active Markets for Identical Assets (Level 1) |
| Money market funds    | \$ 3,819,819         | \$ 3,819,819   | \$ 2,489,797         | \$ 2,489,797   |
| Exchange traded funds | 22,617,126           | 26,529,586   | 19,928,437           | 29,503,091   |
| Bond funds            | 19,974,745           | 18,193,021   | 17,771,116           | 18,028,775   |
| Equity funds          | 1,090,737            | 1,143,935  | 1,700,695            | 2,506,747  |
| Equities              | -                    | -  | 50,045               | 61,962   |
|                       | <u>\$ 47,502,427</u> | <u>\$ 49,686,361</u>   | <u>\$ 41,940,090</u> | <u>\$ 52,590,372</u>   |

Board Designated Endowment Funds

ARF's Board Investment Committee provides fiduciary oversight of financial reserves to ensure the long-term financial stability of the Organization and the ability to survive serious and/or unexpected negative events. Annual contributions to the board designated endowment fund will consist of bequests in excess of budget, determined annually, and were \$1,000,000 and \$1,500,000, respectively, for the years ended June 30, 2022 and 2021. With that goal in mind, the Board of Directors has designated endowments of \$41,416,755 and \$43,259,617, at June 30, 2022 and 2021, respectively, which are held in ARF's investment accounts and designated for future general programs and operations.

|   | 2022                 | 2021                 |
|---|----------------------|----------------------|
| Board designated endowment funds, beginning   | \$ 43,259,617        | \$ 32,937,176        |
| Dividend income                               | 1,405,447            | 904,405              |
| Net realized and unrealized gains (losses)    | (7,095,535)          | 7,915,161            |
| Bequests in excess of budget                  | 1,817,532            | 1,557,542            |
| Investment fees                               | (60,601)             | (54,667)             |
| Transfer from board designated endowment fund | 2,090,295            | -                    |
| Board designated endowment funds, ending      | <u>\$ 41,416,755</u> | <u>\$ 43,259,617</u> |

Beneficial Interest in Assets Held by Trustee

During the year ended June 30, 2021, ARF was named a 10% beneficiary of certain assets which are held by a third-party trustee (the Trustee) for the benefit of ARF, and which are currently invested in money-market funds, equities and fixed income securities. The Trustee is authorized in its discretion to use the principal and income of the trust for the payment of any legally enforceable obligations or costs in the administration of the estate. These assets will be held by the Trustee until 2049, at which time ARF's 10% beneficial interest in the remaining assets will be distributed to ARF. ARF reports its 10% beneficial interest in the assets held by the Trustee at fair value net of a present value discount in the statements of financial position and reports changes in the value of the beneficial interest as contribution income in the statements of activities. As of June 30, 2022 and 2021, the discount rate applied was 4.75% and 3.25%, respectively, based on the federal prime rate.

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ARF's beneficial interest of assets held by the Trustee, which are recorded at fair value, are as follows, at June 30, 2022 and 2021:

|   | 2022              |  | 2021              |  |
|---|-------------------|--|-------------------|--|
|   | <i>Cost</i>       | <i>Significant Other<br/>Observable<br/>Inputs<br/>(Level 2)</i> | <i>Cost</i>       | <i>Significant Other<br/>Observable<br/>Inputs<br/>(Level 2)</i> |
| Beneficial interest in cash held by the Trustee – without donor restrictions        | \$ 19,653         | \$ 19,653  | \$ 94,532         | \$ 94,532  |
| Beneficial interest in investments held by the Trustee – without donor restrictions | 204,288           | 219,888  | 215,069           | 269,390  |
|   | <u>\$ 223,941</u> | <u>\$ 239,541</u>  | <u>\$ 309,601</u> | <u>\$ 363,922</u>  |

The beneficial interest in assets held by the Trustee was comprised of the following at June 30, 2022 and 2021:

|   | 2022              | 2021              |
|---|-------------------|-------------------|
| Beneficial interest in assets held by the Trustee | \$ 838,569        | \$ 527,186        |
| Present value discount                            | (599,028)         | (163,264)         |
| Total   | <u>\$ 239,541</u> | <u>\$ 363,922</u> |

ARF is entitled to annual distributions of income (loss) based on the change in the fair value of the beneficial interest in the assets, which totaled \$(124,381) and \$31,504 for the years ended June 30, 2022 and 2021, respectively, and is included in contribution income in the accompanying statements of activities. Furthermore, the Trustee can make additional distributions in its sole discretion.

Contribution income recognized from the initial contribution of the beneficial interest in the trust assets for the year ended June 30, 2021, amounted to \$332,418.

The beneficial interest in assets held by the Trustee has been valued, as a practical expedient, at the fair value of ARF's share of the Trustee's investment pool as of the measurement date, utilizing valuations provided by the Trustee and discounted as applied.

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**NOTE 6 – PROPERTY AND EQUIPMENT AND CONSTRUCTION IN PROGRESS**

Property and equipment is summarized as follows:

|   | <u>2022</u>          | <u>2021</u>          |
|---|----------------------|----------------------|
| Land  | \$ 10,532,895        | \$ 10,532,895        |
| Buildings and improvements                      | 21,728,170           | 21,713,842           |
| Furniture and fixtures                          | 867,019              | 862,687              |
| Vehicles  | 504,941              | 543,954              |
| Machinery and equipment                         | 257,768              | 251,973              |
| Website development costs                       | 77,511               | 62,500               |
| Leasehold improvements                          | 43,730               | 43,730               |
|   | <u>34,012,034</u>    | <u>34,011,581</u>    |
| Less: accumulated depreciation and amortization | <u>(6,884,377)</u>   | <u>(6,265,001)</u>   |
| Total property and equipment, net               | <u>\$ 27,127,657</u> | <u>\$ 27,746,580</u> |

Construction in Progress

To fund the construction of the Pets and Vets Center, a capital campaign commenced in 2018 and concluded in 2020. Planning for the Pets and Vets Center was initially started in 2017 with commencement of construction occurring in 2019. The Center was completed and placed-in-service in April 2021.

Construction in progress totaled \$-0- and \$1,100 as of June 30, 2022 and 2021, respectively.

**NOTE 7 – INVENTORY**

Inventories are summarized as follows:

|   | <u>2022</u>       | <u>2021</u>       |
|---|-------------------|-------------------|
| Donated sports memorabilia, net of allowance for write-down of \$91,971 and \$92,409 in 2022 and 2021, respectively | \$ 91,971         | \$ 92,409         |
| ARF wear garments   | 4,849             | 7,752             |
| Miscellaneous items   | 23,089            | 24,773            |
|   | <u>\$ 119,909</u> | <u>\$ 124,934</u> |

**NOTE 8 – INTANGIBLE ASSET**

In December 2019, a donor contributed the rights to a prepaid luxury box-suite on the Owner's Suite Level of the San Francisco 49ers football stadium in Santa Clara, California. No purpose or use restrictions were attached to the donation. The prepaid suite, under terms of a Suite License Agreement and Assumption Agreement (Agreement), included an initial 20-year term covering the period from March 1, 2014 through February 28, 2034. Due to COVID-19, and ARF's inability to utilize the benefits set forth in the Agreement for the year covering March 1, 2020 through February 28, 2021, the lessor extended the contract term through February 28, 2035 for no further consideration.

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The Agreement was recorded at its fair value at date of donation as determined by an appraisal performed specifically for such purpose. The Agreement was valued at \$4,270,811 at date of donation and is amortized on a straight-line basis over the remaining contract term of approximately 15 years.

|                          | <u>2022</u>         | <u>2021</u>         |
|--------------------------|---------------------|---------------------|
| Intangible asset, cost   | \$ 4,270,811        | \$ 4,270,811        |
| Accumulated amortization | <u>(735,528)</u>    | <u>(450,808)</u>    |
| Total                    | <u>\$ 3,535,283</u> | <u>\$ 3,820,003</u> |

ARF reviews the Agreement for impairment whenever events or changes in circumstances indicate that the carrying value of such asset may not be recoverable. Impairment is measured by a comparison of the net carrying amount of the asset to the value of the suite based on the value of comparable suites in comparable stadiums, use of the suite for scheduled events, the performance of the 49ers football team, the opportunity to list the suite on the open market, and other relevant factors. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of such asset. There were no impairment losses recognized in 2022 or 2021.

ARF accepted the donated stadium suite lease with the intent to use the luxury-suite to provide entertainment to donors, employees, volunteers and other associated individuals and organizations that help to promote and sustain ARF's mission, fundraising goals and program objectives. ARF also intends to monetize the asset through short-term rental and possible sale of the suite lease agreement. During the year ended June 30, 2022, ARF recognized \$39,000 of suite lease income, which is included in other revenue in the statements of activities. No suite lease income was recognized during the year ended June 30, 2021. Any transfer or sale of the agreement cannot be made without the approval of Forty-Niners SC Stadium Company LLC, the licensor. ARF will assess its ability to sell the suite once the stadium is allowed to resume normal operations.

**NOTE 9 – CONDITIONAL PROMISES TO GIVE**

ARF periodically receives conditional grants that require grantors' approval of progress toward milestones set forth in the grant agreements. Revenue is recognized upon meeting the specified condition(s). At June 30, 2022 and 2021, there were no conditional grants with balances not yet recognized as revenue.

**NOTE 10 – LINE OF CREDIT**

ARF has a \$350,000 revolving line of credit with a bank, which bears interest at 0.5% over the bank's prime rate, which approximated 4.75% and 3.25%, respectively, at June 30, 2022 and 2021, and is secured by substantially all assets of ARF. Effective August 19, 2021, the maturity date of the loan was extended to August 5, 2022. No amounts were outstanding in connection with the respective line of credit as of June 30, 2022 and 2021.

**NOTE 11 – PAYCHECK PROTECTION PROGRAM**

On April 25, 2020, ARF received loan proceeds of \$781,570 from a promissory note issued under the Paycheck Protection Program ("PPP") which was established under the CARES Act and is administered by the U.S. Small Business Association (SBA). The term of the loan was for two years, with an annual interest rate of 1%, and specified monthly principal and interest payments of \$43,983.

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Management was granted forgiveness of the loan and accrued interest in full in November 2021. The outstanding loan and accrued interest have been recognized as forgiveness income as of June 30, 2022. Interest expense incurred for the year ended June 30, 2021 was \$7,816 and accrued interest and June 30, 2021 was \$9,119.

**NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions represent funds which have not yet been expended for donor-imposed purpose restrictions or time restrictions. Net assets with donor restrictions were available for the following purposes:

|  | <i>June 30,</i><br><i>2021</i> | <i>Contributions</i> | <i>Investment</i><br><i>Loss</i> | <i>Releases from</i><br><i>Restrictions</i> | <i>Transfers</i> | <i>June 30,</i><br><i>2022</i> |
|--|--------------------------------|----------------------|----------------------------------|---|------------------|--------------------------------|
| Endowment funds (Note 13)                            | \$ 2,637,184                   | \$ -                 | \$ (289,421)                     | \$(234,378) <sup>(5)</sup>                  | \$ -             | \$ 2,113,385                   |
| Humane education program                             | 27,054                         | -                    | -                                | -   | -                | 27,054                         |
| Hope fund  | 20,291                         | 100,196              | -                                | (20,853)                                    | -                | 99,634                         |
| Pets and Vets program                                | 2,040,550                      | 1,130,313            | -                                | (831,043)                                   | -                | 2,339,820                      |
| Pets and Vets building<br>maintenance <sup>(2)</sup> | 2,000,000                      | -                    | -                                | -   | -                | 2,000,000                      |
| Other programs                                       | 26,682                         | 523,649              | -                                | (266,963)                                   | -                | 283,368                        |
| <b>Total</b>   | <b>\$ 6,751,761</b>            | <b>\$ 1,754,158</b>  | <b>\$ (289,421)</b>              | <b>\$(1,353,237)</b>                        | <b>\$ -</b>      | <b>\$ 6,863,261</b>            |

|                                      | <i>June 30,</i><br><i>2020</i> | <i>Contributions</i> | <i>Investment</i><br><i>Income</i> | <i>Releases from</i><br><i>Restrictions</i> | <i>Transfers</i>             | <i>June 30,</i><br><i>2021</i> |
|--------------------------------------|--------------------------------|----------------------|------------------------------------|---|------------------------------|--------------------------------|
| Capital campaign                     | \$15,769,046                   | \$ -                 | \$ -                               | \$(13,769,046) <sup>(1)</sup>               | \$(2,000,000) <sup>(2)</sup> | \$ -                           |
| Capital campaign –<br>special events | 2,343,041                      | -                    | -                                  | (216,314) <sup>(3)</sup>                    | (2,126,727) <sup>(4)</sup>   | -                              |
| Endowment funds (Note 13)            | 1,856,136                      | -                    | 1,030,262                          | (249,214) <sup>(5)</sup>                    | -                            | 2,637,184                      |
| Humane education program             | 27,054                         | -                    | -                                  | -   | -                            | 27,054                         |
| Hope fund                            | 13,918                         | 28,878               | -                                  | (22,505)                                    | -                            | 20,291                         |
| Pets and Vets program                | -                              | 368,901              | -                                  | (455,078)                                   | 4,126,727 <sup>(2)(4)</sup>  | 4,040,550                      |
| Other programs                       | 14,029                         | 108,268              | -                                  | (95,615)                                    | -                            | 26,682                         |
| <b>Total</b>                         | <b>\$20,023,224</b>            | <b>\$ 506,047</b>    | <b>\$ 1,030,262</b>                | <b>\$(14,807,772)</b>                       | <b>\$ -</b>                  | <b>\$ 6,751,761</b>            |

(1) Releases from restrictions of \$13,769,046 in 2021 is for construction in progress of the Pets and Vets Center, which was placed in service in 2021.

(2) The Board of Directors determined, as part of the assessment of the capital campaign, that \$2,000,000 would be designated for the Pets and Vets program for preservation of the integrity of the Pets and Vets Center maintenance, repairs and upkeep.

(3) Releases from restrictions of \$216,314 are for capital campaign expenses incurred during 2021.

(4) Capital campaign special events funds, specifically the Leaders and Legends event, totaling \$2,126,727 were transferred to the Pets and Vets program upon completion of the capital campaign and the construction of the Pets and Vets Center.

(5) Releases from restrictions for the endowment funds are appropriations permitted for expenditure.

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**NOTE 13 – ENDOWMENTS**

ARF's endowment net assets consist of funds whose corpus is to remain intact and includes those assets of donor-restricted funds that ARF must hold in perpetuity and board designated endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ARF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding of programs supported by its endowment while also maintaining the purchasing power of the endowment assets, assuming an average inflation rate of 2.5%. In establishing this policy, ARF considered the long-term expected investment return on its endowment assets. Approved by its Board of Directors, endowment assets are invested in a manner that is intended to produce results that exceed the respective benchmark while assuming a moderate level of investment risk. Accordingly, over the long term, ARF expects its endowment assets, over time, to produce the highest level of return, net of investment fees, for the desired level of risk. Actual returns in any given year may vary from this amount.

The Board of Directors of ARF has full authority and plenary power to manage, invest and reinvest any principal of the fund and any increase or accumulations to it and any income from it; however, the Board of Directors has a fiduciary duty to maintain the corpus of the donor-restricted endowment fund.

*Board Designated Endowment Funds*

ARF's Board Investment Committee established the board designated sustainability fund provide future financial stability and use towards its programs and general charitable purpose.

*Donor-Restricted Endowment Funds*

ARF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), signed into law in California in 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ARF classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

ARF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of ARF and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation and depreciation of investments, and (6) the investment policies of ARF.

In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable without purpose restriction. Through June 30, 2022, ARF received one endowment (in 2005), of which the earnings on the corpus balance of \$1,612,549 are restricted as to use. The ARF donor indicated that the use of the investment income, including net appreciation, resulting from the donor-restricted endowment funds should be used by ARF exclusively for charitable purposes for the well-being, advancement, preservation and care of small animals in California, with particular emphasis given, but not limited to, dogs and cats and also may be used, but are not limited to, veterinary care, particularly including spaying and neutering, preservation, rescue and placement.

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The Board of Directors established a spending rate of no more than 7% of the average annual fair value of the investment balance of the endowment funds for the prior two fiscal year ends. In establishing this policy, ARF considered the long-term expected return on its endowment assets, the nature and duration of the endowment funds, all of which must be maintained in perpetuity because of donor restrictions and possible effects of inflation. Accordingly, over the long term, ARF expects their spending policy to allow its endowment to grow at a rate exceeding expected inflation. In the event that the endowment were underwater, the spending rate would be 0%.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires ARF to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions and generally result from unfavorable market fluctuations that occur shortly after the investment of new contributions with donor restrictions and continued appropriation for certain programs that were deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in net assets with donor restrictions. There were no aforementioned deficiencies at June 30, 2022 and 2021.

Net changes in endowment funds are as follows:

|   | <i>Without Donor<br/>Restrictions <sup>(1)</sup></i> | <i>With Donor<br/>Restrictions</i> | <i>Total</i>        |
|---|--|------------------------------------|---------------------|
| Balance as of June 30, 2020                         | \$ 1,750,645   | \$ 1,856,136                       | \$ 3,606,781        |
| Dividend income                                     | -  | 86,683                             | 86,683              |
| Net realized and unrealized<br>gains on investments | -  | 949,208                            | 949,208             |
| Appropriations                                      | 249,214  | (249,214)                          | -                   |
| Investment fees                                     | -  | (5,629)                            | (5,629)             |
| Balance as of June 30, 2021                         | 1,999,859  | 2,637,184                          | 4,637,043           |
| Dividend income                                     | -  | 89,026                             | 89,026              |
| Net realized and unrealized<br>gains on investments | -  | (373,593)                          | (373,593)           |
| Appropriations                                      | 234,378  | (234,378)                          | -                   |
| Investment fees                                     | -  | (4,854)                            | (4,854)             |
| Transfer to board designated<br>sustainability fund | (2,090,295)  | -                                  | (2,090,295)         |
| Balance as of June 30, 2022                         | <u>\$ 143,942</u>                                    | <u>\$ 2,113,385</u>                | <u>\$ 2,257,327</u> |

<sup>(1)</sup> Endowment funds without donor restrictions are funds that have been appropriated for use in ARF programs and general charitable purpose.

**NOTE 14 – RETIREMENT PLAN**

ARF has a 403(b) retirement plan which is offered to all employees who have completed one year of eligible service without regard to minimum age. ARF contributes a dollar for dollar match up to 2% of the employee's gross compensation. All participating employees may contribute up to the annual IRS limit. Employer contributions for 2022 and 2021 were \$38,438 and \$36,882, respectively.

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**NOTE 15 – JOINT COSTS**

In 2022 and 2021, ARF conducted activities that included requests for contributions as well as a program component. Those activities include special events and direct mail campaigns. The costs of conducting those activities included a total of \$297,183 and \$192,084 of joint costs for the years ended June 30, 2022 and 2021, respectively, which are not specifically attributable to particular components of the activities. For the years ended June 30, 2022 and 2021, total joint costs allocated to program was \$196,141 and \$126,775, respectively, and \$101,042 and \$65,309, respectively, was allocated to fundraising.

**NOTE 16 – DONATED GOODS AND SERVICES**

ARF relies heavily on donated goods and services to operate its adoption center and thrift store. A substantial number of unpaid volunteers have made significant contributions of times to ARF. For the years ended June 30, 2022 and 2021, volunteers donated approximately 45,358 and 45,571 hours to ARF, respectively. These hours included approximately 21,047 and 41,344 hours of foster care for animals, respectively. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure their value.

Contributed goods are included in the financial statements at their fair value where an objective basis of measurement is available. Such donated goods for the years ended June 30, 2022 and 2021 were reported as contributions of \$340,002 and \$500,849, respectively, with offsetting assets and expenses recorded in the corresponding categories as follows: program services \$233,114 and \$374,228, fundraising \$106,888 and \$126,621, and supporting services \$-0- for the years ended June 30, 2022 and 2021, respectively.

**NOTE 17 – COMMITMENTS AND CONTINGENCIES**

Thrift Store Lease

The ARF thrift store operates from the Market Street Park and Shop Center in Concord, California, under an operating lease which expires on November 30, 2021. In July 2021, the operating lease was extended with a new expiration date of November 30, 2023. Under the terms of the lease agreement, the base rent increases annually by 3% to 5%. The rental expense under this operating lease agreement for 2022 and 2021 was \$117,908 and \$105,939, respectively.

Other Leases

ARF also has several other non-cancellable operating lease arrangements for equipment and an operating lease for its storage unit that is currently leased on a month-to-month basis. The rental expense under other operating lease agreements for 2022 and 2021 totaled \$36,375 and \$35,609, respectively.

The estimated future minimum lease payments for the non-cancellable operating leases are as follows:

|      | <u>Year Ending June 30,</u> |
|------|-----------------------------|
| 2023 | \$ 126,536                  |
| 2024 | 58,092                      |
| 2025 | 13,453                      |
| 2026 | 4,378                       |
| 2027 | <u>448</u>                  |
|      | <u>\$ 202,907</u>           |



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**NOTE 18 – LIQUIDITY AND AVAILABILITY**

Financial assets as of June 30, 2022 and 2021 consist of the following:

|   | <u>2022</u>          | <u>2021</u>          |
|---|----------------------|----------------------|
| Financial assets at end of year available within one year:          |                      |                      |
| Cash  | \$ 204,403           | \$ 316,288           |
| Cash savings  | 3,819,819            | 2,489,797            |
| Accounts receivable   | 40,272               | 19,787               |
| Employee retention credit receivable                                | 1,794,678            | -                    |
| Pledges receivable  | 366,500              | 1,385,629            |
| Investments   | <u>45,866,542</u>    | <u>50,100,575</u>    |
|   | 52,092,214           | 54,312,076           |
| Less financial assets not available for general expenditures:       |                      |                      |
| Pledges receivable for specified purposes                           | (105,000)            | (609,150)            |
| Investments – Endowment with donor-specified restrictions           | <u>(2,113,385)</u>   | <u>(2,637,184)</u>   |
| Financial assets available for general expenditures within one year | <u>\$ 49,873,829</u> | <u>\$ 51,065,742</u> |

Financial assets include amounts that will be used to pay accounts payable, accrued expenses and other distributions from operating cash flow, if any, in the subsequent year. ARF also has an available line of credit agreement, which bears interest at 0.5% plus the bank's prime rate, totaling \$350,000 with no outstanding borrowings as of June 30, 2022.

**NOTE 19 – LEGAL CLAIMS AND ASSERTIONS**

ARF has been named in civil actions related to employment practices. Those claims are being evaluated by legal counsel. It is indeterminate whether such claims may result in any liability. ARF maintains insurance coverage with respect to such claims, and management believes such coverage is sufficient to cover legal costs and provides specified coverage should a liability determination be made.

**NOTE 20 – COVID-19 PANDEMIC**

The emergence and spread of the coronavirus (COVID-19) beginning in the first quarter of 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on ARF's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.