

**ANIMAL
RESCUE
LEAGUE
of BOSTON**



A champion for animals

**FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

ANIMAL RESCUE LEAGUE OF BOSTON

Contents
December 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Directors of
Animal Rescue League of Boston:

Opinion

We have audited the financial statements of Animal Rescue League of Boston (a Massachusetts corporation, not-for-profit) (ARL), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Animal Rescue League of Boston as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 ARL 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, which raise substantial doubt about ARL'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 GAAS 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, 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 ARL'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, which raise substantial doubt about ARL'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.

AAFCPA, Inc.

Westborough, Massachusetts
June 15, 2022

ANIMAL RESCUE LEAGUE OF BOSTONStatements of Financial Position
December 31, 2021 and 2020

| Assets | 2021 | 2020 |
|--|-----------------------|-----------------------|
| Current Assets: | | |
| Cash and equivalents | \$ 4,028,481 | \$ 2,738,174 |
| Current portion of pledges receivable | 1,419,857 | 1,035,773 |
| Accounts receivable | 176,169 | 140,251 |
| Prepaid expenses and other assets | 312,974 | 331,982 |
| Total current assets | 5,937,481 | 4,246,180 |
| Pledges Receivable, net | 158,147 | - |
| Investments, at fair value | 96,390,119 | 86,767,540 |
| Investment in Land | - | 3,000,000 |
| Property and Equipment, net | 21,381,423 | 9,706,132 |
| Beneficial Interest in Perpetual Trusts | 16,223,000 | 14,917,175 |
| Total assets | <u>\$ 140,090,170</u> | <u>\$ 118,637,027</u> |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Current portion of tax-exempt bond | \$ 51,106 | \$ - |
| Accounts payable and accrued expenses | 1,981,162 | 1,911,503 |
| Conditional grant advance | 1,337,757 | - |
| Total current liabilities | 3,370,025 | 1,911,503 |
| Tax-Exempt Bond, net of current portion and unamortized debt issuance costs | 8,932,346 | (34,734) |
| Total liabilities | <u>12,302,371</u> | <u>1,876,769</u> |
| Net Assets: | | |
| Without donor restrictions: | | |
| Undesignated | 11,860,443 | 10,717,738 |
| Board designated | 74,540,682 | 67,865,608 |
| Total without donor restrictions | 86,401,125 | 78,583,346 |
| With donor restrictions | 41,386,674 | 38,176,912 |
| Total net assets | <u>127,787,799</u> | <u>116,760,258</u> |
| Total liabilities and net assets | <u>\$ 140,090,170</u> | <u>\$ 118,637,027</u> |

The accompanying notes are an integral part of these statements.

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ANIMAL RESCUE LEAGUE OF BOSTON

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|-----------------------|
| Operating Revenues: | | | |
| Investment spending policy | \$ 3,540,540 | \$ - | \$ 3,540,540 |
| Services fees and other income | 3,529,597 | - | 3,529,597 |
| Public support | 2,909,681 | - | 2,909,681 |
| Income from trusts | 718,138 | - | 718,138 |
| Bequests | 480,000 | - | 480,000 |
| Net assets released from restrictions | 331,705 | - | 331,705 |
| | <u>11,509,661</u> | <u>-</u> | <u>11,509,661</u> |
| Total operating revenues | | | |
| Operating Expenses: | | | |
| Program services | 9,238,108 | - | 9,238,108 |
| Management and general | 1,611,457 | - | 1,611,457 |
| Fundraising | 656,142 | - | 656,142 |
| | <u>11,505,707</u> | <u>-</u> | <u>11,505,707</u> |
| Total operating expenses | | | |
| Changes in net assets from operations | <u>3,954</u> | <u>-</u> | <u>3,954</u> |
| Non-Operating Activities: | | | |
| Investment return, net | 4,720,233 | 1,670,474 | 6,390,707 |
| Bequests | 2,142,861 | 155,288 | 2,298,149 |
| Public support | - | 1,728,692 | 1,728,692 |
| Change in beneficial interest in perpetual trusts | - | 1,305,825 | 1,305,825 |
| Capital campaign expenses | (27,500) | - | (27,500) |
| Construction project expenses | (49,813) | - | (49,813) |
| Loss on disposal of property and equipment | (53,139) | - | (53,139) |
| Costs associated with investment in land | (237,629) | - | (237,629) |
| Net assets released from restrictions | 1,318,812 | (1,650,517) | (331,705) |
| | <u>7,813,825</u> | <u>3,209,762</u> | <u>11,023,587</u> |
| Total non-operating activities | | | |
| Changes in net assets | 7,817,779 | 3,209,762 | 11,027,541 |
| Net Assets: | | | |
| Beginning of year | <u>78,583,346</u> | <u>38,176,912</u> | <u>116,760,258</u> |
| End of year | <u>\$ 86,401,125</u> | <u>\$ 41,386,674</u> | <u>\$ 127,787,799</u> |

ANIMAL RESCUE LEAGUE OF BOSTON

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|-----------------------|
| Operating Revenues: | | | |
| Investment spending policy | \$ 3,373,000 | \$ - | \$ 3,373,000 |
| Services fees and other income | 2,867,581 | - | 2,867,581 |
| Public support | 3,654,797 | - | 3,654,797 |
| Income from trusts | 678,737 | - | 678,737 |
| Net assets released from restrictions | 220,260 | - | 220,260 |
| Total operating revenues | 10,794,375 | - | 10,794,375 |
| Operating Expenses: | | | |
| Program services | 8,683,659 | - | 8,683,659 |
| Management and general | 1,529,483 | - | 1,529,483 |
| Fundraising | 579,893 | - | 579,893 |
| Total operating expenses | 10,793,035 | - | 10,793,035 |
| Changes in net assets from operations | 1,340 | - | 1,340 |
| Non-Operating Activities: | | | |
| Investment return, net | 2,251,192 | 709,110 | 2,960,302 |
| Bequests | 1,629,232 | 430,526 | 2,059,758 |
| Public support | 527,958 | 407,979 | 935,937 |
| Change in beneficial interest in perpetual trusts | - | 1,555,744 | 1,555,744 |
| Change in value of investment in land | 1,075,000 | - | 1,075,000 |
| Capital campaign expenses | (42,333) | - | (42,333) |
| Loss on disposal of property and equipment | (118,144) | - | (118,144) |
| Costs associated with investment in land | (104,215) | - | (104,215) |
| Net assets released from restrictions | 100,000 | (320,260) | (220,260) |
| Total non-operating activities | 5,318,690 | 2,783,099 | 8,101,789 |
| Changes in net assets | 5,320,030 | 2,783,099 | 8,103,129 |
| Net Assets: | | | |
| Beginning of year | 73,263,316 | 35,393,813 | 108,657,129 |
| End of year | <u>\$ 78,583,346</u> | <u>\$ 38,176,912</u> | <u>\$ 116,760,258</u> |

ANIMAL RESCUE LEAGUE OF BOSTON

Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets | \$ 11,027,541 | \$ 8,103,129 |
| Adjustments to reconcile changes in net assets to net cash and equivalents provided by (used in) operating activities: | | |
| Depreciation and amortization | 596,136 | 486,900 |
| Net realized and unrealized gains on investments | (7,206,182) | (5,691,859) |
| Change in beneficial interest in perpetual trusts | (1,305,825) | (1,555,744) |
| Change in value of investment in land | - | (1,075,000) |
| Capital grants | (1,318,812) | (100,000) |
| Loss on disposal of property and equipment | 53,139 | 118,144 |
| Discount on pledges and other receivables | (3,318) | (980) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | (538,913) | (744,903) |
| Accounts receivable | (35,918) | 2,895 |
| Prepaid expenses and other assets | 19,008 | (19,646) |
| Accounts payable and accrued expenses | 69,132 | 181,487 |
| Conditional grant advance | 1,337,757 | - |
| | <u>2,693,745</u> | <u>(295,577)</u> |
| Net cash provided by (used in) operating activities | | |
| Cash Flows from Investing Activities: | | |
| Sales of investments | 22,083,933 | 20,623,637 |
| Purchases of investments | (24,500,330) | (19,711,196) |
| Proceeds from sale of land held for investment | 3,000,000 | - |
| Acquisition of property and equipment | (12,317,415) | (1,980,933) |
| | <u>(11,733,812)</u> | <u>(1,068,492)</u> |
| Net cash used in investing activities | | |
| Cash Flows from Financing Activities: | | |
| Proceeds from tax-exempt bond debt, net | 9,011,562 | (36,287) |
| Capital grants | 1,318,812 | 100,000 |
| | <u>10,330,374</u> | <u>63,713</u> |
| Net cash provided by financing activities | | |
| Net Change in Cash and Equivalents | 1,290,307 | (1,300,356) |
| Cash and Equivalents: | | |
| Beginning of year | <u>2,738,174</u> | <u>4,038,530</u> |
| End of year | <u>\$ 4,028,481</u> | <u>\$ 2,738,174</u> |
| Supplemental Disclosures: | | |
| Capital assets financed through accounts payable and accrued expenses | <u>\$ 688,084</u> | <u>\$ 687,557</u> |
| Cash paid for interest | <u>\$ 75,840</u> | <u>\$ 500</u> |

ANIMAL RESCUE LEAGUE OF BOSTON

Statement of Functional Expenses
For the Year Ended December 31, 2021

| | Program Services | | | | Total Program Services | Supporting Services | | | Total |
|--|-----------------------------|------------------------|----------------------|-----------------------|------------------------------|---------------------------|-------------------|---------------------------------|----------------------|
| | Animal Care and Adoption | Veterinary Services | Animal Protection | Community Programs | | Management and General | Fundraising | Total Supporting Services | |
| Salaries, payroll taxes and benefits | \$ 2,001,683 | \$ 2,510,411 | \$ 683,200 | \$ 500,871 | \$ 5,696,165 | \$ 1,417,062 | \$ 384,054 | \$ 1,801,116 | \$ 7,497,281 |
| Animal care services, equipment and supplies | 95,661 | 818,203 | 7,765 | 33,099 | 954,728 | 106 | - | 106 | 954,834 |
| Depreciation | 139,403 | 222,220 | 49,271 | 36,292 | 447,186 | 142,326 | - | 142,326 | 589,512 |
| Occupancy | 66,944 | 80,411 | 20,405 | 18,276 | 186,036 | 304,069 | - | 304,069 | 490,105 |
| Maintenance and repair services | 65,209 | 113,247 | 23,047 | 17,193 | 218,696 | 127,796 | - | 127,796 | 346,492 |
| Information technology | 26,349 | 25,196 | 14,972 | 5,028 | 71,545 | 190,504 | 36,822 | 227,326 | 298,871 |
| Insurance | - | - | - | - | - | 285,245 | - | 285,245 | 285,245 |
| Design, printing and postage | 18,313 | 32,198 | 6,082 | 4,432 | 61,025 | 26,915 | 192,672 | 219,587 | 280,612 |
| Other expenses | 19,653 | 55,928 | 131 | 20 | 75,732 | 180,774 | 818 | 181,592 | 257,324 |
| Travel and vehicle expense | 15,263 | 41,733 | 23,321 | 20,738 | 101,055 | 11,580 | 25,807 | 37,387 | 138,442 |
| Office expenses | 17,577 | 30,585 | 8,808 | 3,680 | 60,650 | 36,461 | 680 | 37,141 | 97,791 |
| Advertising and promotion | 23,275 | 37,103 | 8,226 | 6,059 | 74,663 | 1,529 | 8,179 | 9,708 | 84,371 |
| Other professional services | 14,654 | 23,961 | 7,691 | 3,756 | 50,062 | 8,612 | 7,110 | 15,722 | 65,784 |
| Audit and tax services | - | - | - | - | - | 52,346 | - | 52,346 | 52,346 |
| Legal services | 1,641 | 4,116 | 4,481 | 426 | 10,664 | 16,648 | - | 16,648 | 27,312 |
| Lobbying services | - | - | 23,566 | - | 23,566 | - | - | - | 23,566 |
| Conferences and meetings | 2,745 | 5,401 | 5,327 | 671 | 14,144 | 1,675 | - | 1,675 | 15,819 |
| Allocation of management and general | 371,462 | 589,977 | 131,552 | 99,200 | 1,192,191 | (1,192,191) | - | (1,192,191) | - |
| Total expenses | \$ 2,879,832 | \$ 4,590,690 | \$ 1,017,845 | \$ 749,741 | \$ 9,238,108 | \$ 1,611,457 | \$ 656,142 | \$ 2,267,599 | \$ 11,505,707 |

ANIMAL RESCUE LEAGUE OF BOSTON

 Statement of Functional Expenses
 For the Year Ended December 31, 2020

| | Program Services | | | | Total Program Services | Supporting Services | | | Total |
|--|-----------------------------|------------------------|----------------------|-----------------------|------------------------------|---------------------------|-------------------|---------------------------------|----------------------|
| | Animal Care and Adoption | Veterinary Services | Animal Protection | Community Programs | | Management and General | Fundraising | Total Supporting Services | |
| Salaries, payroll taxes and benefits | \$ 2,205,512 | \$ 2,185,757 | \$ 607,782 | \$ 512,900 | \$ 5,511,951 | \$ 1,397,659 | \$ 383,448 | \$ 1,781,107 | \$ 7,293,058 |
| Animal care services, equipment and supplies | 116,184 | 712,079 | 13,001 | 28,360 | 869,624 | 247 | 28 | 275 | 869,899 |
| Depreciation | 144,071 | 180,745 | 41,848 | 33,668 | 400,332 | 85,015 | - | 85,015 | 485,347 |
| Occupancy | 65,041 | 61,257 | 16,132 | 15,677 | 158,107 | 354,360 | 63 | 354,423 | 512,530 |
| Maintenance and repair services | 56,069 | 74,420 | 15,877 | 12,773 | 159,139 | 115,688 | - | 115,688 | 274,827 |
| Information technology | 18,512 | 22,824 | 6,438 | 4,326 | 52,100 | 188,144 | 33,057 | 221,201 | 273,301 |
| Insurance | - | - | - | - | - | 272,000 | - | 272,000 | 272,000 |
| Design, printing and postage | 16,805 | 23,859 | 5,305 | 4,089 | 50,058 | 54,487 | 149,266 | 203,753 | 253,811 |
| Other expenses | 14,642 | 47,607 | 12 | 10 | 62,271 | 80,207 | 117 | 80,324 | 142,595 |
| Travel and vehicle expense | 26,761 | 33,157 | 14,472 | 12,516 | 86,906 | 14,630 | 426 | 15,056 | 101,962 |
| Office expenses | 10,242 | 26,843 | 8,988 | 2,259 | 48,332 | 20,877 | 510 | 21,387 | 69,719 |
| Advertising and promotion | 6,833 | 7,539 | 1,703 | 1,370 | 17,445 | 1,068 | 9,345 | 10,413 | 27,858 |
| Other professional services | 32,773 | 39,560 | 16,696 | 7,369 | 96,398 | 3,005 | 1,404 | 4,409 | 100,807 |
| Audit and tax services | - | - | - | - | - | 53,736 | - | 53,736 | 53,736 |
| Legal services | 2,113 | 2,651 | 8,141 | 494 | 13,399 | 7,032 | - | 7,032 | 20,431 |
| Lobbying services | - | - | 30,519 | - | 30,519 | - | - | - | 30,519 |
| Conferences and meetings | 1,308 | 3,836 | 1,881 | 443 | 7,468 | 938 | 2,229 | 3,167 | 10,635 |
| Allocation of management and general | 408,191 | 498,424 | 118,935 | 94,060 | 1,119,610 | (1,119,610) | - | (1,119,610) | - |
| Total expenses | \$ 3,125,057 | \$ 3,920,558 | \$ 907,730 | \$ 730,314 | \$ 8,683,659 | \$ 1,529,483 | \$ 579,893 | \$ 2,109,376 | \$ 10,793,035 |

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

1. OPERATIONS AND NONPROFIT STATUS

The Animal Rescue League of Boston (ARL) is an unwavering champion for animals in need, committed to keeping them safe and healthy in habitats and homes. A Massachusetts nonprofit organization founded in 1899, ARL provides high quality veterinary care, adoption, and rescue services while also confronting the root causes of animal cruelty and neglect through innovative community programs, police investigations, and public advocacy.

ARL is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). ARL is also exempt from state income taxes. Donors may deduct contributions made to ARL within the IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

ARL prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and operating expenses in the accompanying statements of activities and changes in net assets. Peripheral or incidental transactions are reported as non-operating activities. Non-operating activities include bequests, restricted public support and releases thereof, change in value of and costs associated with investment in land, gains and losses on asset disposals, capital campaign expenses, construction project expenses, change in beneficial interest in perpetual trusts, and investment activity (see Note 3).

Cash and Equivalents

For purposes of the statements of cash flows, management considers all highly liquid investments held for operating purposes with initial maturities of three months or less to be cash and equivalents. Cash and equivalents include amounts held for operating and facilities planning purposes. Given the seasonal nature of ARL's fundraising, amounts collected prior to year-end may fluctuate from year-to-year. Cash and equivalents held by investment managers are considered part of investments.

Allowance for Doubtful Accounts

ARL provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. ARL's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. There was no allowance for doubtful accounts as of December 31, 2021 and 2020.

Fair Value Measurements

ARL follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that ARL would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

ARL uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of ARL. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable, and which require significant judgment or estimation.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Cash and Equivalents

Cash and equivalents are considered Level 1 in the fair value hierarchy.

Investments

Investments are recorded in the financial statements at fair value. If an investment is directly held by ARL and an active market with quoted prices exists, the market price of an identical security is used to report fair value. ARL's interests in other investment funds, such as marketable alternatives, are generally reported at the net asset value (NAV) reported by fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of December 31, 2021 and 2020, ARL had no plans to sell investments at amounts different from NAV.

Under the provisions of FASB Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, ARL is allowed to measure the fair value of certain investments using the value per share of the investments.

A description of the valuation methodologies used for assets measured at fair value is included on pages 10 and 11.

Investment in Land

The value of ARL's investment in land (see page 11) was determined using Level 3 inputs which include independent appraisals or certifications of value by licensed professionals.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Beneficial Interest in Perpetual Trusts

The value of ARL's interest in perpetual trusts (see Note 8) is determined using Level 1 inputs (the fair value of trust assets) and Level 3 inputs (ARL's share of ownership in the trusts).

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and is considered Level 1 in the fair value hierarchy.

Property and Equipment and Depreciation

Property and equipment with a value of \$5,000 or more are recorded at cost at the date of acquisition or at fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives (see Note 7):

| | |
|----------------------------|--------------|
| Land | N/A |
| Buildings and improvements | 5 - 40 years |
| Equipment | 3 - 20 years |
| Motor vehicles | 5 - 10 years |
| Furniture and fixtures | 7 years |

ARL reviews its investment in property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the assets to the future net undiscounted cash flow expected to be generated by the asset and any estimated proceeds from the eventual disposition of the asset. If the property and equipment are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property and equipment exceeds the fair value of such property and equipment. There were no impairment losses recognized in 2021 and 2020.

Investments

All investments are carried at fair value as non-current assets since all are invested for long-term purposes of ARL. ARL records its share of the realized activities as a return of capital or return on capital based upon the characterization determined by the fund manager or general partner. ARL records its share of unrealized gains and losses on investments as increases or decreases in the accumulated appreciation (depreciation) component of its investment accounts. Asset valuations for investments valued at NAV are estimated as determined based on amounts reported by the partnerships. These estimated values may differ significantly from the values that would have been used had a ready market existed and those differences could be material.

Certain other investment funds, such as marketable alternatives, are valued using NAV as a practical expedient to estimate the fair value. ARL values all other investments, which are publicly traded, using the quoted price in an active market (Level 1 input). Investment return consists of interest, dividends and realized and unrealized gains and losses. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Realized gains and losses on investment transactions are recorded based on the average cost method. Investment income of the endowments is available for specified or unspecified purposes based on donor instruction. Therefore, investment income is reflected in net assets with donor restrictions or net assets without donor restrictions in the accompanying statements of activities and changes in net assets.

Investments are subject to ongoing market fluctuations. The investments are held in several separately managed investment portfolios. An investment advisor assists ARL's Investment Committee in evaluation of sector allocations and performance.

The investments have been allocated between the with donor restrictions and without donor restrictions net asset classes in the accompanying statements of financial position according to the absence or presence of donor restrictions (see Note 4) and *Uniform Prudent Management of Institutional Funds Act* (UPMIFA).

ARL believes that the reported amount of its investments is a reasonable estimate of fair value as of December 31, 2021 and 2020. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

Investment in Land

ARL had received a gift of parcels of land and buildings in Cataumet, Massachusetts. Management believed that the carrying value of the property, including holding costs, was recoverable from the developed use of the property or its disposition. During 2009, the Board of Directors formally designated the parcels of land as investment property to be added to ARL's Board Designated Net Assets - Funds Functioning as Endowment (see page 12).

In 2020, ARL had an appraisal performed to determine the current value of the property, resulting in an increase in the carrying value of the property of \$1,075,000. In 2021, ARL sold its investment in land. The proceeds, net of closing costs, remain in ARL's Board Designated Net Assets - Funds Functioning as Endowment.

Net Assets

ARL has prepared its financial statements in accordance with U.S. GAAP, which require ARL to report information regarding its financial position and activities according to the following net asset classifications (see Note 4):

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions. ARL has two classifications of net assets without donor restrictions as follows:

- *Undesignated* - represent unrestricted resources available for general operating purposes, as well as resources available and amounts expended for property and equipment, net of accumulated depreciation and related debt.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net Assets Without Donor Restrictions (Continued)

- *Board designated* - are funds designated by the Board of Directors as functioning as endowment. Board designations may be cancelled at the discretion of the Board. Previously, Board designated also included a capital spending fund and a long-term land use and facilities fund. In 2020, the Board voted to transfer any remaining balances in these funds as of January 1, 2021, into a new facilities fund to be used for facilities-related maintenance, repairs, depreciation, and asset replacement.

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Funds functioning as endowment (see Note 4) | \$ 72,878,784 | \$ 66,202,604 |
| Facilities fund | 1,661,898 | - |
| Capital spending fund (see Note 4) | <u>-</u> | <u>1,663,004</u> |
| | <u>\$ 74,540,682</u> | <u>\$ 67,865,608</u> |

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of ARL or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

Net assets with donor restrictions include the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Beneficial interest in perpetual trusts (see Note 8) | \$ 16,223,000 | \$ 14,917,175 |
| Appreciation on donor-restricted endowment funds held in perpetuity (see Note 4) | 15,564,004 | 13,950,565 |
| Donor-restricted endowment funds held in perpetuity | 7,562,667 | 7,562,667 |
| Purpose restricted: | | |
| Brewster shelter | 1,029,735 | 835,971 |
| Veterinary services | 655,224 | 550,092 |
| Community programs | 19,258 | 61,797 |
| Other programs and services | 264,740 | 234,068 |
| Ruth A. Safford Fund - capital (see Note 4) | 49,713 | 46,244 |
| Time restricted | <u>18,333</u> | <u>18,333</u> |
| | <u>\$ 41,386,674</u> | <u>\$ 38,176,912</u> |

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Public support includes annual appeal contributions and grants which are recognized as revenue when received or committed by the donor. ARL reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and changes in net assets as net assets released from restrictions.

In accordance with Topic 606, *Revenue from Contracts with Customers*, ARL records service fee income as goods or adoption, veterinary or other services are provided to clients of the shelters, veterinary clinic and mobile service units, which is when ARL has satisfied the performance obligation to its clients. Fees for goods and services are based on established fee schedules and price listings with fee reductions under limited circumstances if the client is unable to pay. Promotional discounts are offered during certain periods when a client purchases certain goods or services. Non-standard discounts are provided at the discretion of management.

In addition to its known interest in certain outside perpetual trusts (see Note 8), ARL is and may be a named beneficiary of wills. The amounts to be received, if any, cannot be determined and may be revocable. Therefore, they are not reflected in the accompanying financial statements until ARL receives the distribution. ARL received \$2,778,149 and \$2,059,758 in bequests from various wills during 2021 and 2020, respectively. Bequest income appropriated for operations was \$480,000 for the year ended December 31, 2021. No bequest income was appropriated for operations for the year ended December 31, 2020.

In accordance with Topic 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ARL must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that ARL should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each function. Certain salary expenses are allocated to programs based upon management's estimate of the percentage attributable to each function. Expenses that are attributable to more than one program or supporting function are allocated to programs pro rata based on direct costs.

Advertising

ARL expenses advertising costs as they are incurred.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Return Allocations and Spending Policy

Massachusetts follows UPMIFA. Subject to the intent of a donor, ARL may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by ARL.

Under ARL's investment policy, the Board of Directors appropriates for operations a percentage of the average market value of certain components of ARL's investment portfolio over the preceding twelve quarters. For the years ended December 31, 2021 and 2020, the Board approved appropriation was 4.75%. Transfers to operating revenues are reflected in the statements of activities and changes in net assets.

ARL has an investment policy which, combined with the spending rate, attempts to provide a predictable stream of returns with asset protection. Endowment assets include those assets restricted by donors that ARL must hold in perpetuity. Under ARL's investment policy and spending rate, both approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

To satisfy its long-term rate-of-return objectives, ARL relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee, advised by a third-party investment advisor, is responsible for selecting the investment managers of ARL's portfolio. The Investment Committee's strategy is to include an array of strategies and investment managers for the portfolio in order to maximize risk adjusted returns.

As a result of UPMIFA, ARL 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. This is regarded as the "historic dollar value" of the endowment fund. The remaining portion of the donor-restricted endowment fund that is regarded as "net appreciation" is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by ARL.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

Subsequent Events

Subsequent events have been evaluated through June 15, 2022, which is the date the financial statements were available to be issued. See Note 12 for an event that met the criteria for disclosure in the financial statements.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Positions

ARL accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. ARL has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2021 and 2020. ARL's information returns are subject to examination by the Federal and state jurisdictions.

Unamortized Debt Issuance Costs

Debt issuance costs of \$196,259 are amortized on a straight-line basis over the length of the loan, which approximates the effective interest method (see Note 13). Amortization expense was \$6,624 and \$1,553 for the years ended December 31, 2021, and 2020, respectively, and is included in other expenses in the accompanying statements of functional expenses. Annual amortization expense is expected to be approximately \$6,500 through 2050.

3. INVESTMENTS

The following tables set forth, by level within the fair value hierarchy (see Note 2), ARL's investments at fair value as of December 31:

| Investment Type | 2021 | | | | Total |
|------------------------------|---------------|---------|---------|--|---------------|
| | Level 1 | Level 2 | Level 3 | Net Asset Value as Practical Expedient | |
| Global equities: | | | | | |
| Developed markets* | \$ 31,094,327 | \$ - | \$ - | \$ 26,337,447 | \$ 57,431,774 |
| Emerging markets* | - | - | - | 7,068,717 | 7,068,717 |
| Total global equities | 31,094,327 | - | - | 33,406,164 | 64,500,491 |
| Private investments* | - | - | - | 50,000 | 50,000 |
| Hedge funds* | - | - | - | 6,997,992 | 6,997,992 |
| Global fixed income: | | | | | |
| Corporate* | 11,467,203 | - | - | 2,672,747 | 14,139,950 |
| Other investments: | | | | | |
| Money market funds | 10,697,637 | - | - | - | 10,697,637 |
| Accrued investment income | 4,049 | - | - | - | 4,049 |
| Total | \$ 53,263,216 | \$ - | \$ - | \$ 43,126,903 | \$ 96,390,119 |

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

3. INVESTMENTS (Continued)

| Investment Type | 2020 | | | Net Asset Value as Practical Expedient | Total |
|------------------------------|----------------------|-------------|-------------|--|----------------------|
| | Level 1 | Level 2 | Level 3 | | |
| Global equities: | | | | | |
| Developed markets* | \$ 30,913,470 | \$ - | \$ - | \$ 20,163,409 | \$ 51,076,879 |
| Emerging markets* | - | - | - | 6,548,407 | 6,548,407 |
| Total global equities | 30,913,470 | - | - | 26,711,816 | 57,625,286 |
| Hedge funds* | - | - | - | 7,839,897 | 7,839,897 |
| Global fixed income: | | | | | |
| Corporate* | 8,622,038 | - | - | 4,598,876 | 13,220,914 |
| Other investments: | | | | | |
| Money market funds | 8,077,880 | - | - | - | 8,077,880 |
| Accrued investment income | 3,563 | - | - | - | 3,563 |
| Total | <u>\$ 47,616,951</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 39,150,589</u> | <u>\$ 86,767,540</u> |

* In accordance with ASU 2015-07, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

During 2021 and 2020, the following investment activity occurred:

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Net unrealized gains | \$ 4,045,427 | \$ 4,914,477 |
| Net realized gains | 3,160,755 | 777,382 |
| Interest and dividends | 3,037,054 | 942,941 |
| Investment fees | (311,989) | (301,498) |
| | 9,931,247 | 6,333,302 |
| Less - investment return appropriated for current operations | 3,540,540 | 3,373,000 |
| Investment return reduced by appropriation for current operations | <u>\$ 6,390,707</u> | <u>\$ 2,960,302</u> |

In addition to the investment activity outlined above, other investment activity included contributions and bequests, the sale of investment land, and other operational transfers into and from the investment portfolio.

ARL has committed to contributing an additional \$950,000 in capital to one of the private investments as of December 31, 2021.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

4. ENDOWMENT, CAPITAL SPENDING FUND AND FACILITIES FUND

Included in net assets at December 31, 2021 and 2020, are the following named funds:

Donor-Restricted Endowments:

- **Ruth K. Howland Soles Fund** was established as a donor-restricted endowment fund held in perpetuity. Income from this fund is not donor-restricted.
- **Martha J. Atkins Fund** is an endowment recorded as a donor-restricted endowment fund held in perpetuity, with the income restricted for maintenance of a shelter on Cape Cod.
- **Grace M. Marks Fund** was established in 1993 through a bequest from the estate of Elliot P. Marks, with the income to be used in connection with the spaying or neutering of dogs and cats belonging to year-round residents of Barnstable County in Massachusetts. In 2008, the probate court in Barnstable County authorized an expansion of the bequest to include residents of southeastern Massachusetts. The balance of the fund is classified in net assets with donor restrictions and the income is also recorded as net assets with donor restrictions.
- **William L. and Eva Edgar Wright Fund** was established as a donor-restricted endowment fund held in perpetuity. Income from this fund is not donor-restricted.
- **Selwyn A. Kudisch Fund** was established as a donor-restricted endowment fund held in perpetuity. Income from this fund is restricted to support shelter dogs.
- **Ruth A. Safford Fund** was originally established with donor stipulations that the money be used for the construction of an animal shelter. Using these resources, ARL constructed the Safford Memorial Shelter in 1985. Unless needed for future qualifying capital projects, the remaining funds are to be considered a donor-restricted endowment fund, with the investment income restricted for the operation and maintenance of the shelter. Since the fund may be used for future capital projects, the entire balance is considered to be with donor restrictions.

The balance of donor-restricted endowment funds as of December 31, 2021 and 2020, is as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|----------------------|----------------------|
| Other pooled donor endowments | \$ 18,013,509 | \$ 16,756,791 |
| Ruth K. Howland Soles Fund | 2,752,867 | 2,560,813 |
| Martha J. Atkins Fund | 1,002,280 | 932,356 |
| Grace M. Marks Fund | 915,754 | 851,866 |
| William L. and Eva Edgar Wright Fund | 385,089 | 358,223 |
| Selwyn A. Kudisch Fund | 57,172 | 53,183 |
| Ruth A. Safford Fund | 49,713 | 46,245 |
| | <u>\$ 23,176,384</u> | <u>\$ 21,559,477</u> |

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

4. ENDOWMENT, CAPITAL SPENDING FUND AND FACILITIES FUND (Continued)

Board-Designated Endowment Funds:

- **Frederick W. Potter, Jr. Fund** was established for purposes of “the alleviation of and minimizing the suffering, human abuse and neglect of animal life, both domesticated and wild, which comes within ARL’s jurisdiction”. For accounting purposes, ARL considers these stipulations entirely within the mission of ARL and classifies the principal and income of these funds as without donor restrictions.

The balance of Board-designated endowment funds at December 31, 2021 and 2020, is as follows:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Other operating and unnamed funds functioning as endowment | \$ 66,944,138 | \$ 60,681,990 |
| Frederick W. Potter, Jr. Fund | <u>5,934,646</u> | <u>5,520,614</u> |
| | <u>\$ 72,878,784</u> | <u>\$ 66,202,604</u> |

During 2020, the Board of Directors approved a transfer of \$479,922 into the capital spending fund, representing funding for depreciation. The Board of Directors also approved transfers from the capital spending fund totaling \$178,543 to reimburse 2020 capital spending.

In 2020, the Board voted to transfer any remaining balances in the capital spending fund as of January 1, 2021, into a new facilities fund. Assets in the new facilities fund are maintained with general operating cash. The balance of the facilities fund was \$1,661,898 at December 31, 2021. No disbursements were made from the fund in 2021.

The activity pertaining to the capital spending fund and facilities fund for the years ended December 31, 2021 and 2020, is as follows:

| | |
|---|---------------------|
| Balance at December 31, 2019 | \$ 1,336,443 |
| Transfer to fund depreciation | 479,922 |
| Investment return, net of investment fees of \$6,047 | 25,182 |
| Transfer to net assets without donor restrictions to reimburse capital spending | <u>(178,543)</u> |
| Balance at December 31, 2020 | 1,663,004 |
| Investment return, net of investment fees of \$489 | <u>(1,106)</u> |
| Balance at December 31, 2021 | <u>\$ 1,661,898</u> |

ANIMAL RESCUE LEAGUE OF BOSTONNotes to Financial Statements
December 31, 2021 and 2020**4. ENDOWMENT, CAPITAL SPENDING FUND AND FACILITIES FUND (Continued)**

Changes in endowment net assets are as follows for the years ended December 31, 2021 and 2020:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total Endowment</u> |
|--|---|--|----------------------------|
| Endowment net assets, December 31, 2019 | \$ 61,239,987 | \$ 20,802,714 | \$ 82,042,701 |
| Investment return: | | | |
| Net unrealized gains | 4,746,694 | 1,285,511 | 6,032,205 |
| Net realized gains | 574,643 | 201,276 | 775,919 |
| Investment income | 702,802 | 246,389 | 949,191 |
| Investment fees and other | <u>(218,170)</u> | <u>(76,495)</u> | <u>(294,665)</u> |
| Total investment return | 5,805,969 | 1,656,681 | 7,462,650 |
| Contributions and bequests | 1,629,729 | - | 1,629,729 |
| Appropriation of endowment assets for expenditure | <u>(2,473,081)</u> | <u>(899,919)</u> | <u>(3,373,000)</u> |
| Sub-total | <u>4,962,617</u> | <u>756,762</u> | <u>5,719,379</u> |
| Endowment net assets, December 31, 2020 | <u>66,202,604</u> | <u>21,559,476</u> | <u>87,762,080</u> |
| Investment return: | | | |
| Net unrealized gains | 2,988,373 | 1,044,328 | 4,032,701 |
| Net realized gains | 2,341,435 | 793,564 | 3,134,999 |
| Investment income | 2,279,417 | 741,019 | 3,020,436 |
| Investment fees and other | <u>(420,035)</u> | <u>(77,334)</u> | <u>(497,369)</u> |
| Total investment return | 7,189,190 | 2,501,577 | 9,690,767 |
| Contributions and bequests | 2,142,861 | - | 2,142,861 |
| Appropriation of endowment assets for expenditure | <u>(2,655,871)</u> | <u>(884,669)</u> | <u>(3,540,540)</u> |
| Sub-total | <u>6,676,180</u> | <u>1,616,908</u> | <u>8,293,088</u> |
| Endowment net assets, December 31, 2021 | <u>\$ 72,878,784</u> | <u>\$ 23,176,384</u> | <u>\$ 96,055,168</u> |

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

5. PLEDGES RECEIVABLE

Pledges receivable are expected to be received as follows at December 31:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|------------------|
| Due within one year | \$ 1,419,857 | \$ 1,035,773 |
| Due within two years | 111,465 | - |
| Due within three years | <u>50,000</u> | <u>-</u> |
| | 1,581,322 | 1,035,773 |
| Less - discount | 3,318 | - |
| Less - current portion | <u>1,419,857</u> | <u>1,035,773</u> |
| | | |
| Pledges receivable, net of current portion and discount | <u>\$ 158,147</u> | <u>\$ -</u> |

The pledges have been discounted using a 1.6% rate as of December 31, 2021. No discount was deemed necessary at December 31, 2020.

Two sources represent approximately 67% of the total outstanding pledges receivable at December 31, 2021 (see below). One donor's balance represents approximately 51% of the total outstanding pledges receivable at December 31, 2020.

The Employee Retention Tax Credit (ERTC) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) passed in March 2020 provided a refundable tax credit against certain employment taxes in an amount up to \$5,000 per employee an eligible employer paid between March 12, 2020 and December 31, 2020. On December 27, 2020, the Consolidated Appropriations Act (CAA) was signed into law and extended and expanded the ERTC through September 2021, relaxed the eligibility requirements and retroactively allowed Paycheck Protection Program (PPP) recipients to be eligible for the ERTC in 2020.

ARL had determined that it was qualified to retroactively apply for the ERTC and believed it was probable that it would receive a refund totaling \$527,958 after filing amended 2020 Federal employment tax returns. In 2021, ARL filed amended quarter-three and quarter-four 2020 Federal employment tax returns in order to claim the ERTC. Eligibility for the credit and the credit calculations are subject to review and approval by the Federal government. In late 2021, ARL received payment on their quarter-three amendment. Due to the Internal Revenue Service (IRS) processing delays, the quarter-four credit was still outstanding as of December 31, 2021. At December 31, 2021 and 2020, \$504,290 and \$527,958, respectively, are included in the current portion of pledges receivable without donor restrictions in the accompanying statements of financial position. In the opinion of management, the results of the pending review will not have a material effect on the financial position of ARL as of December 31, 2021, and on the changes in its net assets for the year then ended.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

6. PENSION PLANS

Deferred Compensation Plan

ARL has a deferred compensation plan in accordance with Section 457(b) of the IRC with designated members of ARL's senior management. Under the plan, ARL made available to the employees' additional compensation within IRC limits. Employer contributions, if any, and related earnings vest immediately upon payment or being earned. The employees may decide to defer additional compensation in accordance with IRC limits. There were three participants in 2021 and 2020. Compensation expense under this agreement was \$31,500 and \$36,000 for the years ended December 31, 2021 and 2020, respectively, and is included in salaries, payroll taxes and benefits in the accompanying statements of functional expenses. At December 31, 2021 and 2020, \$347,348 and \$395,067, respectively, of deferred compensation is included in cash and equivalents and accounts payable and accrued expenses in the accompanying statements of financial position.

403(b) Plan

ARL operates a voluntary defined contribution retirement plan in accordance with IRC Section 403(b). Employees may withhold contributions from their salaries on a tax-deferred basis within IRC limits. All employees who work or are scheduled to work a minimum of 1,000 hours in a twelve-month period are eligible for the plan. ARL makes contributions of up to 3% of an eligible employee's salary. Employer contributions vest in accordance with the plan. For the years ended December 31, 2021 and 2020, ARL made contributions of \$118,739 and \$126,325, respectively, to the plan, which are included in salaries, payroll taxes and benefits in the accompanying statements of functional expenses.

7. PROPERTY AND EQUIPMENT

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

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|----------------------|---------------------|
| Land | \$ 504,886 | \$ 504,886 |
| Buildings and improvements | 24,535,226 | 10,120,493 |
| Construction in process | - | 2,950,392 |
| Equipment | 708,222 | 985,286 |
| Motor vehicles | 1,171,522 | 1,155,609 |
| Furniture and fixtures | <u>499,914</u> | <u>104,291</u> |
| | 27,419,770 | 15,820,957 |
| Less - accumulated depreciation | <u>6,038,347</u> | <u>6,114,825</u> |
| | <u>\$ 21,381,423</u> | <u>\$ 9,706,132</u> |

Depreciation expense on property and equipment was \$589,512 and \$485,347 for the years ended December 31, 2021 and 2020, respectively. See Note 2 for a description of ARL's accounting policies for property and equipment and depreciation.

During 2017, ARL began a capital project to plan and build a new administration building and training facility and replace a facilities maintenance garage on its Dedham campus. As of December 31, 2020, construction in process consisted of professional services and construction costs related to the project. Dedham construction was placed into service in October 2021.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

8. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

ARL has beneficial interests in several perpetual trusts held and invested by third party trustees for the benefit of various not-for-profit organizations. The principal, as well as annual gains or losses on the investments of each trust, are restricted in perpetuity. The interest and dividend income generated by the investments is distributed each year by trustees to the beneficiaries and is reported by ARL as income from trusts without donor restrictions in the accompanying statements of activities and changes in net assets. ARL recognized \$718,138 and \$678,737 in distributions from trusts in 2021 and 2020, respectively.

In accordance with U.S. GAAP, ARL has recorded in the accompanying financial statements the fair value (measured as fair value of the trusts' assets based on ARL's share of ownership in each trust) of its beneficial interest in the trusts as net assets with donor restrictions.

Gains and losses on investments are considered changes in the present value of expected cash flows and are recognized as changes in net assets with donor restrictions. ARL's interest in these trusts, based on the fair value of trust assets (Level 1 input) and ARL's share of ownership in the trusts (Level 3 input), was estimated at \$16,223,000 and \$14,917,175 after recording a change in the value of its interest of \$1,305,825 and \$1,555,744 for the years ended December 31, 2021 and 2020, respectively.

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|----------------------|----------------------|
| Balance at beginning of year | \$ 14,917,175 | \$ 13,361,431 |
| Increase in value of interest | <u>1,305,825</u> | <u>1,555,744</u> |
| Balance at end of year | <u>\$ 16,223,000</u> | <u>\$ 14,917,175</u> |

9. LEASES

ARL leased space under various operating leases which expired in 2021. The facility leases required ARL to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses. Rent expense under the facility leases was approximately \$180,000 and \$215,000 for the years ended December 31, 2021 and 2020, respectively, and is included in occupancy in the accompanying statements of functional expenses.

10. CONCENTRATION OF CREDIT RISK

ARL maintains its operating cash balances in Massachusetts banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. ARL has not experienced any losses in such accounts. Management believes ARL is not exposed to any significant credit risk on its operating cash balances.

ANIMAL RESCUE LEAGUE OF BOSTON

Notes to Financial Statements
December 31, 2021 and 2020

11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

ARL's financial assets available within one year from the statements of financial position date for general operating expenses are as follows as of December 31:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Unencumbered financial assets | \$ 1,544,029 | \$ 2,171,704 |
| Accounts and pledges receivable for general expenditures due in one year or less | 1,596,026 | 1,176,024 |
| Appropriation of donor-restricted endowments for use over next twelve months | 80,038 | 80,278 |
| Appropriation of quasi-endowments for use over next twelve months | <u>3,668,105</u> | <u>3,460,262</u> |
| Total financial assets available to meet general expenditures over next twelve months | <u>\$ 6,888,198</u> | <u>\$ 6,888,268</u> |

In addition to the \$6,888,198 and \$6,888,268 of total financial assets available to meet general expenditures over the next twelve months as of December 31, 2021 and 2020, respectively, ARL has future expendable Board designated reserves of \$70,616,984 and \$61,244,834, respectively. ARL manages liquidity by structuring financial assets to be available as general expenditures, liabilities, and other obligations come due. ARL invests cash in excess of short-term requirements in money market funds.

12. CONDITIONAL GRANT

In 2020, ARL applied for, and was awarded, a loan from the Paycheck Protection Program (PPP) established by the CARES Act in the amount of \$1,104,100. The funds were used to pay for certain payroll costs, including benefits, as well as rent and utilities. This loan was forgiven in 2020 and is included in public support in the accompanying 2020 statement of activities and changes in net assets.

In 2021, ARL applied for, and was awarded, a second draw forgivable loan from the PPP in the amount of \$1,337,757. The funds were to be used to pay certain payroll costs, including benefits, as well as interest on mortgages, rents and utilities during the covered period as defined in the CARES Act. There are no covenants with which to comply, and the note was not secured by any collateral as of December 31, 2021.

There was no accrued interest recorded on the note payable as of December 31, 2021, as it would be immaterial to the overall financial statements.

As of December 31, 2021, ARL submitted the application for forgiveness, and the balance was fully forgiven in January 2022. The balance of the second draw PPP loan is reflected as conditional grant advance in the accompanying 2021 statement of financial position.

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13. TAX-EXEMPT BOND

ARL has agreements with the Massachusetts Development Finance Agency and a bank in connection with the issuance of \$12,600,000 of Massachusetts Development Finance Agency Revenue Bonds, Series 2020 draw down bonds (Series 2020 bonds). The Series 2020 bonds accrue interest at an initial rate of 2.55% through October 2040. Subsequently, the interest rate through October 2050 will be fixed at an amount equal to the product of the Tax-Exempt Equivalency Factor in effect as of September 24, 2040, multiplied by the sum of the Federal Home Loan Bank of Boston rate in effect as of that date plus 1.5%. Interest-only payments are due monthly through October 2022. Thereafter, principal and interest payments of \$52,748 are due monthly through October 2040. Payment amounts for the period of November 2040 through October 2050 will be calculated based on the updated interest rate. Interest expense was \$95,650 and \$829 for the years ended December 31, 2021 and 2020, respectively.

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|--------------------|
| Tax-exempt bond | \$ 9,171,534 | \$ 150,072 |
| Less - current portion | 51,106 | - |
| Less - unamortized debt issuance costs | <u>188,082</u> | <u>184,806</u> |
| Tax-exempt bond, net of current portion and unamortized debt issuance costs | <u>\$ 8,932,346</u> | <u>\$ (34,734)</u> |

14. RECLASSIFICATIONS

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation.