

**Peggy Adams Animal Rescue League
of the Palm Beaches, Inc.**

Financial Statements

December 31, 2022

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Independent Auditor's Report

To the Board of Directors
Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
West Palm Beach, Florida

Opinion

We have audited the financial statements of Peggy Adams Animal Rescue League of the Palm Beaches, Inc. (the "Organization"), a nonprofit organization, which comprise the statement of financial position at December 31, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization at December 31, 2022, 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 audit in accordance with auditing standards generally accepted in the United States of America ("U.S. 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 the Organization 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 the Organization's ability to continue as a going concern within one (1) year after the date that the financial statements are available to be issued.

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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 U.S. 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.

In performing an audit in accordance with U.S. 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 the Organization'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 the Organization'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.

 **LLP**

Jupiter, Florida
May 2, 2023

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Financial Position
December 31, 2022

ASSETS

Cash and cash equivalents	\$ 6,760,686
Accounts receivable	67,050
Pledges receivable, net	411,226
Grant receivable	187,500
Inventory	78,182
Prepaid expenses	158,668
Mortgage receivable	92,290
Endowment receivable	3,646,673
Bequest and remainder trust receivables	47,065,645
Investments	29,550,365
Investments - endowment funds	305,479
Operating lease right-of-use asset	29,762
Property and equipment, net	<u>32,161,952</u>
Total assets	<u>\$ 120,515,478</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 646,502
Accrued expenses	432,818
Operating lease liability	29,762
Line of credit	1,430,000
Deferred income	<u>31,982</u>
Total liabilities	<u>2,571,064</u>
Net assets:	
Without donor restrictions	65,971,479
With donor restrictions	<u>51,972,935</u>
Total net assets	<u>117,944,414</u>
Total liabilities and net assets	<u>\$ 120,515,478</u>

See accompanying notes to financial statements.

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Activities
For the Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions and gifts	\$ 4,005,461	\$ 1,196,489	\$ 5,201,950
Donated goods and services	162,044	-	162,044
Mail appeal, net	500,283	-	500,283
Boutique, net	32,359	-	32,359
Special events:			
Gross proceeds from special events	1,370,514	-	1,370,514
Less direct benefit costs	(313,654)	-	(313,654)
Net proceeds from special events	1,056,860	-	1,056,860
Program income:			
Sheltering and adoption	573,865	-	573,865
Clinic	1,239,888	-	1,239,888
Investment income, net	624,609	-	624,609
Assets released from restrictions	4,293,092	(4,293,092)	-
Total revenues and other support	12,488,461	(3,096,603)	9,391,858
Expenses:			
Program services:			
Sheltering and adoption	9,498,199	-	9,498,199
Clinic	1,861,859	-	1,861,859
	11,360,058	-	11,360,058
Support services:			
Fundraising and development	1,071,255	-	1,071,255
General and administrative	749,413	-	749,413
	1,820,668	-	1,820,668
Total expenses	13,180,726	-	13,180,726
Change in net assets before other income	(692,265)	(3,096,603)	(3,788,868)
Other income (expense):			
Loss on sale of property and equipment	3,036	-	3,036
Interest expense	(30,416)	-	(30,416)
Interest income	19,214	-	19,214
Mortgage interest income	7,825	-	7,825
Realized and unrealized loss on investments	(6,083,507)	-	(6,083,507)
Change in fair value of restricted net assets	-	(14,703,735)	(14,703,735)
Total other expense	(6,083,848)	(14,703,735)	(20,787,583)
Change in net assets	(6,776,113)	(17,800,338)	(24,576,451)
Net assets:			
Beginning of year	72,747,592	69,773,273	142,520,865
End of year	\$ 65,971,479	\$ 51,972,935	\$ 117,944,414

See accompanying notes to financial statements.

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services			Support Services			Total Functional Expenses
	Sheltering and Adoption	Clinic	Total	Fundraising and Development	General and Administrative	Total	
Total salaries and related expenses	\$ 5,226,464	\$ 1,017,488	\$ 6,243,952	\$ 649,123	\$ 435,336	\$ 1,084,459	\$ 7,328,411
Advertising and marketing	3,402	-	3,402	88,232	-	88,232	91,634
Depreciation	1,339,487	157,587	1,497,074	31,517	47,276	78,793	1,575,867
Employee costs	173,501	24,839	198,340	7,612	15,134	22,746	221,086
Event expenses	24,168	273	24,441	13,732	1,490	15,222	39,663
Facility maintenance and repairs	236,881	-	236,881	-	-	-	236,881
Insurance	262,721	30,908	293,629	6,582	10,094	16,676	310,305
Office expenses and supplies	72,307	16,648	88,955	86,122	100,764	186,886	275,841
Outside contractors	153,264	112,837	266,101	46,703	106,153	152,856	418,957
Printing and promotion	11,066	972	12,038	118,455	4,104	122,559	134,597
Program supplies	1,251,271	423,001	1,674,272	5,389	4,513	9,902	1,684,174
Telephone and internet	42,436	11,432	53,868	4,605	4,849	9,454	63,322
Utilities	527,467	62,055	589,522	12,411	18,617	31,028	620,550
Occupancy costs	156,239	3,406	159,645	696	1,008	1,704	161,349
Vehicle maintenance	17,525	413	17,938	76	75	151	18,089
Total	\$ 9,498,199	\$ 1,861,859	\$ 11,360,058	\$ 1,071,255	\$ 749,413	\$ 1,820,668	\$ 13,180,726

See accompanying notes to financial statements.

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2022

Cash flows from operating activities:	
Decrease in net assets	\$ (24,576,451)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	1,575,867
Changes in fair value of bequests, remainder trusts, and pledges	14,703,735
Investment income, net	(624,609)
Realized and unrealized loss on investments	6,083,507
Changes in assets and liabilities:	
Decreases (increases) in:	
Pledges receivable	511,749
Accounts receivable	(15,522)
Grant receivable	12,500
Bequest and remainder trust receivables	3,039,396
Inventory	(21,003)
Prepaid expenses	99,415
Operating lease right-of-use asset	(29,762)
Increases (decreases) in:	
Accounts payable	(247,951)
Accrued expenses	149,936
Deferred revenue	(17,360)
Operating lease right-of-use liability	29,762
Net cash provided by operating activities	<u>673,209</u>
Cash flows from investing activities:	
Proceeds from sales of investments	2,343,702
Purchases of investments	(1,310,701)
Principal collections on mortgage receivable	7,742
Purchases of property and equipment	(3,148,947)
Net cash used in investing activities	<u>(2,108,204)</u>
Cash flows from financing activities:	
Proceeds from line of credit	1,930,000
Payments on line of credit	(1,100,000)
Net cash provided by financing activities	<u>830,000</u>
Net decrease in cash and cash equivalents	(604,995)
Cash and cash equivalents:	
Beginning of year	<u>7,365,681</u>
End of year	<u>\$ 6,760,686</u>
Supplemental schedule of non-cash investing and financing activities:	
Purchase of property and equipment included in accounts payable	<u>\$ 419,193</u>

See accompanying notes to financial statements.

Note 1 – Organization and Description of Business

Peggy Adams Animal Rescue League of the Palm Beaches, Inc. (the "Organization") is a nonprofit organization, whose purpose is to encourage humane treatment of animals and promote animal welfare by providing adoption facilities and medical services to domesticated animals and by community education.

The Organization's support comes primarily from individual donors' contributions, endowments, payments for medical services provided to animals, and adoption fees. The Organization also operates a boutique store.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation

Net assets and revenues, gains and losses are classified in two (2) classes of net assets based on the existence or absence of donor-imposed restrictions. The two (2) classes of net assets categories are as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net Assets with Donor Restrictions - Net assets subject to stipulations imposed by donors or grants. Some donor restrictions may be temporary in nature; those restrictions will be met by actions of the Organization or by passage of time. Contributions of long-lived assets and cash restricted for the acquisition of long-lived assets are released when the assets are placed in service. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for their restricted purpose.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of cash on hand. The Organization considers all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents. At December 31, 2022, there was \$1,369,374 of cash held in brokerage accounts, which is included under the caption "cash equivalents" on the Organization's statements of financial position and cash flows.

Note 2 – Summary of Significant Accounting Policies, continued

Accounts Receivable

Accounts receivables are recorded at estimated realizable value and result in the normal course of business. An allowance for doubtful accounts is based on an analysis of expected collection rates determine from experience. Management determined that no allowance for doubtful accounts was considered necessary as of December 31, 2022.

Pledges and Grants Receivable

The receipt by the Organization of unconditional promises to give with amounts due in future periods is reported as donor restricted support, unless explicit donor or grantor stipulations or circumstances surrounding the receipt of the promise make clear that the donor or grantor intended it to be used to support activities of the current period. Unconditional promises to give are reported at the discounted present value of estimated future cash flows, using a discount rate that approximates the rate of government securities, and are deemed fully collectible at December 31, 2022. Amortization of the discount is recorded as additional contribution revenue.

All pledges and grants receivable are expected to be collected, therefore management determined that no allowance for doubtful accounts was considered necessary at December 31, 2022.

Inventory

Inventory consists of pet supplies held for sale. Pet supply inventories are recorded at lower of cost (determined on the first-in, first-out method) or market.

Bequests and Remainder Trusts

The Organization is a beneficiary under various will and trust agreements. Related amounts are recorded either when a will is declared valid by a probate court, or when the Organization is notified as a beneficiary of a trust and the proceeds are measurable. The beneficial interest in the remainder trusts is recorded at net present value, using risk-free interest rates applicable to the years in which the benefit is expected to be received.

Investments

The Organization reports investments at fair value. Net investment return consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses. Net investment return is reported in the statement of activities as a change in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions.

Investments include both board-designated and donor-restricted endowment assets and are managed in accordance with board approved investment and spending policies. The policies, including the policy establishing the portion of the portfolio to be spent annually, seek to preserve the value of the portfolio in real terms and to generate a reliable flow of earnings for support of the Organization. The investment policy provides for major classes of assets, including cash and cash equivalents, fixed-income securities, domestic and international equities, emerging markets, and real estate.

Note 2 – Summary of Significant Accounting Policies, continued

Property and Equipment

Buildings, building improvements and equipment are recorded at cost, if purchased, or at fair value at time of donation, if contributed. Depreciation is computed on the straight-line method over the following estimated useful lives of the depreciable assets.

	<u>Years</u>
Land improvements	5 - 10
Buildings and building improvements	10 - 30
Furniture and equipment	5 - 10
Vehicles	5

Major replacements and betterments of buildings, building improvements and equipment in excess of \$2,500 are capitalized while repairs and minor replacements are charged to operations.

Revenue Recognition - Contributions

The Organization recognizes contribution revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-For-Profit Entities*. Contributions received are recognized at fair value, including unconditional promises to give when the promise is made. Contributions that are to be collected more than one (1) year in the future are recorded at their discounted present value. All contributions are considered to be available for general use unless specifically restricted by the donor. Amounts received that are restricted for future periods (time restriction) or are restricted by the donor for specific purposes (purpose restriction) are reported as increases to net assets with donor restriction.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction and are reported in the statement of activities as "net assets released from restrictions."

Revenue Recognition - Exchange Transactions

Reciprocal transfers in which each party receives and sacrifices goods or services with approximate commensurate value are recognized as exchange transactions. The Organization evaluates exchange transactions based on the criteria set forth in FASB and ASC, *Revenue from Contracts with Customers* ("Topic 606"). The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Organization applies Topic 606 to exchange transactions in which it receives consideration from individuals for special events. Under U.S. GAAP, these arrangements are exchange transactions between the Organization and the individuals. The portion of ticket sales for special events that relates to the commensurate value the attendee receives in return is recognized when the related events are held, and performance obligations are met.

Note 2 – Summary of Significant Accounting Policies, continued

Contributed Services and In-kind Contributions

In-kind contributions are reflected as contributions at their estimated fair value at time of donation. Gifts of nonmonetary contributions are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Organization recognizes the fair value of contributed services received if such services (a) create or enhance non-financial assets or (b) require specialized skills are performed by people with those skills and would otherwise have been purchased. In addition, the Organization received services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fundraising campaigns that do not meet the criteria for financial statement recognition.

Program Income

Program income is recognized as revenue when services are performed.

Fundraising

The Organization's financial statements are presented in accordance with ASC 958, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities that include Fundraising* (formerly Statement of Position 98-2). The ASC establishes criteria for accounting and reporting for any activity that solicits contributions.

Advertising

The Organization expenses advertising costs as incurred. During the year ended December 31, 2022, the Organization incurred total advertising and marketing expenses of \$139,232 inclusive of \$47,600, which is classified within mail appeal, net.

Valuation of Investments at Fair Value

The Organization adopted the provisions of the FASB ASC 820, *Fair Value Measurements*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

ASC 820 establishes 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 the Organization.

Unobservable inputs reflect the Organization'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.

Note 2 – Summary of Significant Accounting Policies, continued

Valuation of Investments at Fair Value, continued

The fair value hierarchy is categorized into three (3) levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. 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 quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

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

Functional Expenses

Functional expenses are those expenses incurred by the Organization in the accomplishment of their mission. The statement of functional expenses present expenses by function and natural classification. Expenses that can be directly identified with the program or supporting services are reported as expenses of those functional areas. Other expenses are allocated among program and supporting services based on a reasonable basis that is consistently applied. The expenses that are allocated include facility, insurance, supplies, and utilities and other accounts as appropriate. These expenses are allocated based on management's estimate of their proportionate share of total expenses.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") as a charitable organization whereby only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to federal income tax. The Organization currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded at December 31, 2022.

The Organization recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances, and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and non-interest expense, respectively. No uncertain tax positions were identified by the Organization at December 31, 2022.

The U.S. federal jurisdiction is the major tax jurisdictions where the Organization files income tax returns. The Organization is generally no longer subject to U.S. Federal or State examinations by tax authorities for fiscal years before 2019.

Note 2 – Summary of Significant Accounting Policies, continued

Adoption of Recent Accounting Pronouncement

On January 1, 2022, the Organization adopted FASB ASU 2016-02 (as amended), *Leases (Topic 842)*. Topic 842 requires lessees to recognize a right-of-use (“ROU”) asset and a corresponding lease liability for virtually all leases. The Organization adopted the standard under the modified retrospective approach and elected the optional transition method to apply the provisions of Topic 842 as of the adoption date, rather than the earliest period presented.

The Organization elected and applied the following transition practical expedients when initially adopting Topic 842:

- The package of practical expedients permitting the Organization to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases.

The Organization would use the rate implicit in the lease to discount lease payments to present value, if available; however, the Organization's leases generally do not provide a readily determinable implicit rate. Accordingly, the Organization estimates the incremental borrowing rate to discount lease payments based on information available at lease commencement.

The Organization recognized the following as of January 1, 2022 in connection with transitioning to Topic 842:

Operating lease ROU assets	\$	39,147
Operating lease liabilities	\$	39,147

The adoption of Topic 842 did not have a material impact on the Organization's statement of activities for the year ended December 31, 2022.

The Organization presents its ROU assets and lease liabilities for operating leases separately on its balance sheet. See Note 10 Operating Leases for information regarding the Organization's adoption of Topic 842 and the Organization's undiscounted future lease payments and the timing of those payments.

Date of Management's Review

Management has evaluated subsequent events through May 2, 2023, the date on which the financial statements were available to be issued.

Note 3 – Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, maintained at several interest bearing and non-interest-bearing bank accounts which, at times, may exceed federally insured limits guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At December 31, 2022, the Organization had \$4,981,576 in excess of FDIC insured limits.

Note 3 – Concentration of Credit Risk, continued

The Organization's investment accounts balances held at brokerage firms are insured by the Securities Investor Protection Corporation ("SIPC") up to \$500,000. At December 31, 2022, amounts in excess of SIPC insured limits, including cash equivalents, were \$30,373,596. The Organization has not experienced losses of this nature in any of its depository accounts.

Note 4 – Liquidity and Availability

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one (1) year of December 31, 2022 are composed of the following:

Financial assets at December 31, 2022:

Cash and cash equivalents	\$ 6,760,686
Accounts receivable	67,050
Pledges receivable	411,226
Grant receivable	187,500
Mortgage receivable	92,290
Investments	29,550,365
ROU assets	29,762
Endowment receivable	3,646,673
Investments - endowment funds	305,479
Bequest and remainder trust receivables	47,065,645
Total financial assets	<u>88,116,676</u>

Less: financial assets unavailable for general expenditure
within one (1) year due to:

Restricted by donors with purpose restrictions	\$ (612,145)
Restricted by donors in perpetuity	(3,646,673)
Bequest and remainder trust receivables due in more than one year	(44,026,249)
Pledges receivable due in more than one year	(185,245)
Investments - endowment funds	(284,186)
Mortgage receivable due in more than one year	(85,582)
Total financial assets unavailable for general expenditure	<u>(48,840,080)</u>

Total financial assets available for general expenditure within one (1) year	<u>\$ 39,276,596</u>
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As part of the Organization's liquidity management, it invests cash in excess of daily requirements in short-term investments.

Note 5 – Mortgage Receivable

The mortgage receivable is carried at its unpaid principal balance and is due in monthly installments of \$1,154 including interest at 8% until July 2033, at which time all unpaid principal is due in full. The mortgage is collateralized by real property. Interest on the mortgage receivable is recognized over the term of the loan using the effective interest rate method. For the year ended December 31, 2022, the Organization recognized \$7,825 in interest income.

The following is a schedule of future minimum mortgage principal collections at December 31, 2022:

<u>Years Ending December 31,</u>	
2023	\$ 6,708
2024	7,265
2025	7,868
2026	8,521
2027	9,229
Thereafter	52,699
	<u>\$ 92,290</u>

Note 6 – Contributions Receivable

Pledges Receivable

The Organization has received pledge agreements from various individuals, which include unconditional promises to give without donor restrictions and donor-imposed restrictions to fund the Organization's Capital Campaign. Pledges receivable are due as follows:

<u>Years Ending December 31,</u>	
2023	\$ 245,398
2024	99,245
2025	46,000
2026	40,000
	<u>430,643</u>
Discount, at 3%	<u>(19,417)</u>
Pledges receivable, net	<u>\$ 411,226</u>

The present value is adjusted each year to reflect changes in current interest rates and other actuarial assumptions. The pledges receivable amount is expected to be received over the next four (4) years and, accordingly, this amount was classified as restricted net assets in the statement of financial position at December 31, 2022. Approximately 29% of total undiscounted pledges receivable, or \$127,000, represents pledges due from board members.

Note 6 – Contributions Receivable, continued

Grant Receivable

During the year ended December 31, 2022, the Organization received grant awards from various grantors in the total amount of \$546,900. Based on the active grant agreements from 2022, the cumulative total of future grant payments to be received at December 31, 2022 is \$187,500.

Endowment Receivable

The Organization received an unconditional pledge of \$4,000,000 during 2007, from a member of the Organization's Board of Directors, for the purpose of establishing an endowment in which the principal is to be maintained in perpetuity and the earnings are to be used for operations. The pledged endowment is due upon the demise of the donor and a receivable has been recorded at its net present value amount of \$3,646,673 in the statement of financial position at December 31, 2022.

Bequest and Remainder Trust Receivable

The Organization is a remainder beneficiary of an irrevocable charitable remainder Unitrust that was created in October 1984. Three (3) income beneficiaries are to receive, first from income and, to the extent that income is insufficient, from principal, an annual annuity equal to a percentage of the net fair market value of the trust assets on the first day of the trust year. Upon the demise of all three (3) beneficiaries, 25% of the remaining principal is to be distributed to the Organization.

In addition, the Organization is the remainder beneficiary of an additional trust from which 50% of the principal is to be distributed to the Organization upon demise of the income beneficiaries.

The Organization also is one (1) of five (5) beneficiaries of a revocable trust from which a 10% distribution of its fair market value is made each year and divided among the five (5) different charitable organizations. Therefore, the Organization is to receive 20% of the annual distribution.

The Organization is a 30% beneficiary of a charitable foundation (Unitrust), which will make annual distributions to the beneficiaries based on 4.5% of the fair market value of the Unitrust.

The Organization is a 50% beneficiary of a remainder trust. During the first ten (10) years, the Organization is to receive annual distributions equal to 50% of net income of the trust or \$100,000, whichever is greater. After the initial ten (10) years, the Organization may request 10% distribution from the principal annually.

The total present value of future minimum receipts is \$47,065,645 at December 31, 2022. The present value is adjusted each year to reflect changes in the life expectancy, current interest rates and other actuarial assumptions.

Note 7 – Investments – Endowment Funds

The Organization has established two (2) charitable endowment funds known as the Peggy Adams Animal Rescue League Endowment Fund and the Melba Ruth Vickers Animal Medical Fund (collectively, the "Funds") with the Community Foundation for Palm Beach and Martin Counties ("Community Foundation"). These "agency restricted funds" are pooled with the other assets of the Community Foundation for investment purposes.

The earnings of the Funds have been restricted for the benefit of the Organization. Contributions made directly to the Funds from the Organization are recorded as assets of the Organization. The initial contributions of \$296,000 are not available for distribution and may not be withdrawn from the Fund.

Note 7 – Investments – Endowment Funds, continued

Return Objectives and Risk Parameters

The Funds shall be invested by the Community Foundation in a long-term growth portfolio whose primary objective is long-term capital appreciation with an investment strategy of five (5) years or longer.

Spending Policy

All distributions from the Fund shall be in accordance with the Community Foundation's spending policy in effect during any fiscal year of the Community Foundation. Distributions may be made from income and capital appreciation but not from the endowment principal. The endowment principal is the sum of the value of the initial contribution establishing the Fund by the Organization and Community Foundation plus all subsequent contributions to the Fund.

Interpretation of Relevant Law

Management has interpreted the law as requiring donor restricted net assets in an endowment fund to remain restricted until appropriated for expenditure by the Organization following the donor's intended purpose. In accordance with the State Management of Institutional Funds Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- 1) The purposes of the Organization and the donor-restricted endowment fund;
- 2) General economic conditions;
- 3) The possible effect of inflation and deflation;
- 4) The expected total return from income and the appreciation of investments;
- 5) Other resources of the Organization; and
- 6) The investment policies of the Organization.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization of Directors of the Organization has interpreted the State Management of Institutional Funds Act, to permit spending from underwater endowments in accordance with prudent measures required under law.

The changes in the Organization's endowment net assets were as follows for the year ended December 31, 2022:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 17,602	\$ 339,170	\$ 356,772
Contributions	-	-	-
Net depreciation, unrealized	3,691	(54,984)	(51,293)
Endowment net assets, end of year	<u>\$ 21,293</u>	<u>\$ 284,186</u>	<u>\$ 305,479</u>

At December 31, 2022, funds with original gift values of \$296,000, fair values of \$270,466, and deficiencies of \$25,534 were reported in net assets with donor restrictions.

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Notes to Financial Statements

Note 8 – Investments

Investments are stated at fair value and have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820 (see Summary of Significant Accounting Policies Note). All investments held at December 31, 2022 are summarized as follows:

Fair Value Measurement at December 31, 2022				
	Total	Quoted Prices for Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 16,965,351	\$ 16,965,351	\$ -	\$ -
Fixed income funds	9,435,785	9,435,785	-	-
Mutual funds specific strategy	2,619,219	2,619,219	-	-
Other	530,010	530,010	-	-
	<u>\$ 29,550,365</u>	<u>\$ 29,550,365</u>	<u>\$ -</u>	<u>\$ -</u>

Investment Expenses

External and direct internal expenses relating to investment revenues amounted to \$132,071 and have been netted against investment revenues in the accompanying Statement of Activities.

Note 9 – Property and Equipment

Property and equipment at December 31, 2022 consisted of the following:

Land	\$ 2,535,744
Buildings and domes	32,701,683
Land and building improvements	3,424,237
Furniture and equipment	3,651,145
Computers and related equipment	405,782
Vehicles	334,974
	<u>43,053,565</u>
Less: accumulated depreciation	<u>(14,246,279)</u>
	28,807,286
Construction in process	3,354,666
Property and equipment, net	<u>\$ 32,161,952</u>

Depreciation expense was \$1,575,867 for the year ended December 31, 2022.

Note 10 – Operating Leases

During November 2020, the Organization entered a six (6) year lease equipment lease. Rent expense under the lease is \$9,852 annually. The lease agreement allows for a one (1), three (3) month renewal option to extend the lease term.

The operating leases are included as an operating lease ROU asset on the accompanying statement of financial position and represent the Organization's right to use the underlying asset for the lease term. Only lease options that the Organization believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. The Organization's obligation to make lease payments are included as an operating lease liability on the statement of financial position and is based on the present value of the lease payments for the remaining lease term of the Organization's existing leases using a discount rate of 1.37%, which is the incremental borrowing rate based on information available at lease commencement. All operating lease expenses are recognized on a straight-line basis over the lease term.

Total rent expense under the lease was \$9,852 for the year ended December 31, 2022.

Maturities of lease liabilities are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 9,852
2024	9,852
2025	9,852
2026	821
2027	-
Thereafter	-
Total payments	<u>30,377</u>
Less: amount representing interest	<u>(615)</u>
Lease obligation, net	<u>\$ 29,762</u>

The table below presents lease related terms and discount rates at December 31, 2022:

Weighted average remaining lease term	36
Incremental borrowing rate	1.37%

Note 11 – Debt

Line of Credit

On August 23, 2019, the Organization entered into a revolving line of credit with a bank, which permitted borrowings up to \$10,000,000. The line of credit bears interest at the Bloomberg Short-term Bank Yield Daily Floating Rate and is collateralized by certain investments of the Organization. The Organization had \$1,430,000 due on the line of credit at December 31, 2022.

Note 12 – Commitments and Contingencies

Contingent Liabilities

The Organization is subject to asserted claims and liabilities that arise in the ordinary course of business. The Organization maintains insurance policies to mitigate potential losses from these actions. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the Organization's financial position or results of operations.

Note 13 – Net Assets without Donor Restrictions

Net assets without donor restrictions are composed of the following at December 31, 2022:

Property and equipment, net	\$ 32,161,952
Undesignated	33,809,527
Total net assets without donor restrictions	<u>\$ 65,971,479</u>

Note 14 – Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2022 are restricted for the following purposes:

Subject to expenditure for specified purpose:

Unsatisfied grant purpose restrictions	\$ 612,145
Endowment receivable	3,646,673
Total subject to expenditure for specified purpose	<u>4,258,818</u>

Subject to the passage of time:

Pledges receivable not restricted by donors, unavailable for expenditure until due	103,894
Pledge receivable- restricted by donors	168,100
Bequest and charitable remainder trust receivables	47,065,645
Mortgage receivable	92,290
Investments - endowment funds	13,722
Total subject to the passage of time	<u>47,443,651</u>

Held in perpetuity:

Investments - endowment funds	296,000
Accumulated losses on endowment funds	(25,534)
Total held in perpetuity	<u>270,466</u>

Total net assets with donor restrictions	<u>\$ 51,972,935</u>
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Note 14 – Net Assets with Donor Restrictions, continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, occurrence of the passage of time or other events specified by the donors as follows:

Expiration of time and purpose restrictions:	
Expiration of time restrictions	\$ 3,199,985
Satisfaction of purpose restrictions	1,073,353
Total net assets released from restrictions	<u>\$ 4,273,338</u>

Note 15 – Contributed Nonfinancial Assets

For the year ended December 31, 2022, contributed nonfinancial assets recognized within the statement of activities included:

Animal food	\$ 149,535
Services	3,240
Medical supplies	4,059
Medical equipment	5,209
Total contributed nonfinancial assets	<u>\$ 162,043</u>

The Organization recognized contributed nonfinancial assets within revenue, including contributed animal food, services, and property. These contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed animal food was utilized in the animal shelter and the food pantry. Contributed services was for maintenance of the shelter generators. In valuing the animal food and services, the Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

The contributed property was valued according to the estimated fair market value of the property at the date of the donation.

Note 16 – Related Party Transactions

The Organization received \$1,379,800 of contributions from members of the Board of Directors and foundations related to the Board of Directors during the year ended December 31, 2022.