



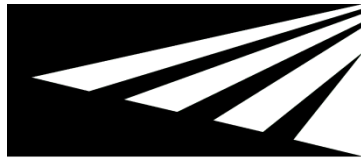
ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

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

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

**ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
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AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

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NawrockiSmith

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Animal Rescue Fund of the Hamptons, Inc.:

Opinion

We have audited the accompanying financial statements of Animal Rescue Fund of the Hamptons, Inc. (the "Organization", a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Rescue Fund of the Hamptons, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization to meet our 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 these 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 year after the date of the financial statements are available to be issued.

NawrockiSmith

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Emphasis-of-Matter

As discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Hauppauge, New York
August 12, 2023

Nawrocki Smith LLP

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021

ASSETS	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,249,522	\$ 5,513,471
Investments	4,318,897	5,762,733
Accounts receivable	323,164	419,413
Contributions receivable, net, current portion	1,159,348	1,055,536
Mortgage receivable, current portion	13,055	12,297
Inventory	31,788	44,843
Current portion of right-of-use asset - financing	1,595	-
Prepaid expenses and other assets	10,430	12,711
Total current assets	7,107,799	12,821,004
Fixed assets, net	3,503,521	3,636,171
Construction-in-progress	16,176,211	7,167,459
Right-of-use asset - financing, net, noncurrent portion	4,251	-
Mortgage receivable, net, noncurrent portion	21,096	34,151
Contributions receivable, net, noncurrent portion	2,174,665	2,941,011
Restricted investments	1,000,000	1,000,000
Security deposits	200	6,940
Total assets	\$ 29,987,743	\$ 27,606,736
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Line of credit	\$ 1,965,500	\$ 640,000
Accounts payable and accrued expenses	2,277,956	1,233,721
Current portion of lease liability - financing	1,535	-
Deferred revenue	63,275	-
Total current liabilities	4,308,266	1,873,721
Lease liability - financing, net, noncurrent portion	4,405	-
Total liabilities	4,312,671	1,873,721
NET ASSETS:		
Without donor restrictions:		
Designated for fixed assets	3,503,521	3,636,171
Board designated for ARF Securing Our Future Campaign	5,028,648	6,394,918
Board designated for Forever Home	2,322,467	2,938,847
Total net assets without donor restrictions	10,854,636	12,969,936
With donor restrictions	14,820,436	12,763,079
Total net assets	25,675,072	25,733,015
Total liabilities and net assets	\$ 29,987,743	\$ 27,606,736

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

**ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT:						
Contributions	\$ 1,326,377	\$ 2,084,869	\$ 3,411,246	\$ 1,273,325	\$ 10,535,704	\$ 11,809,029
Grants	-	-	-	456,600	-	456,600
Special events, net of direct expenses	771,141	-	771,141	873,132	-	873,132
Donated goods	535,408	-	535,408	553,353	-	553,353
Total public support	<u>2,632,926</u>	<u>2,084,869</u>	<u>4,717,795</u>	<u>3,156,410</u>	<u>10,535,704</u>	<u>13,692,114</u>
REVENUES:						
Investment return, net	(1,256,303)	-	(1,256,303)	773,116	-	773,116
Obedience training	-	-	-	2,330	-	2,330
Adoptions	51,775	-	51,775	42,764	-	42,764
Other income	12,653	-	12,653	40,407	-	40,407
Operation Cat	2,720	-	2,720	4,400	-	4,400
Total revenues	<u>(1,189,155)</u>	<u>-</u>	<u>(1,189,155)</u>	<u>863,017</u>	<u>-</u>	<u>863,017</u>
Total public support and revenues	<u>1,443,771</u>	<u>2,084,869</u>	<u>3,528,640</u>	<u>4,019,427</u>	<u>10,535,704</u>	<u>14,555,131</u>
EXPENSES:						
Program services	2,716,701	-	2,716,701	2,573,288	-	2,573,288
Administration	197,889	-	197,889	221,826	-	221,826
Fundraising	671,993	-	671,993	547,927	-	547,927
Total expenses	<u>3,586,583</u>	<u>-</u>	<u>3,586,583</u>	<u>3,343,041</u>	<u>-</u>	<u>3,343,041</u>
Excess (deficiency) of revenues over (under) expenses	(2,142,812)	2,084,869	(57,943)	676,386	10,535,704	11,212,090
Net assets released from restrictions	27,512	(27,512)	-	17,406	(17,406)	-
CHANGE IN NET ASSETS	<u>(2,115,300)</u>	<u>2,057,357</u>	<u>(57,943)</u>	<u>693,792</u>	<u>10,518,298</u>	<u>11,212,090</u>
NET ASSETS, BEGINNING OF YEAR	<u>12,969,936</u>	<u>12,763,079</u>	<u>25,733,015</u>	<u>12,276,144</u>	<u>2,244,781</u>	<u>14,520,925</u>
NET ASSETS, END OF YEAR	<u>\$ 10,854,636</u>	<u>\$ 14,820,436</u>	<u>\$ 25,675,072</u>	<u>\$ 12,969,936</u>	<u>\$ 12,763,079</u>	<u>\$ 25,733,015</u>

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022				2021			
	Program Services	Administration	Fundraising	Total	Program Services	Administration	Fundraising	Total
Salaries	\$ 1,396,909	\$ 36,283	\$ 380,975	\$ 1,814,167	\$ 1,158,035	\$ 43,976	\$ 263,856	\$ 1,465,867
Employee benefits	288,243	7,487	78,612	374,342	281,444	10,688	64,127	356,259
Depreciation and amortization	140,977	3,662	38,448	183,087	143,626	5,454	32,725	181,805
Medical	173,599	-	-	173,599	140,430	-	-	140,430
Repairs and maintenance	125,765	3,267	34,300	163,332	116,692	4,431	26,588	147,711
Payroll taxes	120,484	3,129	32,859	156,472	121,942	4,631	27,784	154,357
Professional fees	-	133,890	-	133,890	-	132,142	-	132,142
Utilities	78,477	2,038	21,403	101,918	69,583	2,643	15,854	88,080
Contracted services	62,792	1,631	17,125	81,548	59,262	2,250	13,503	75,015
Animal supplies	78,578	-	-	78,578	71,015	-	-	71,015
Insurance	47,901	1,244	13,064	62,209	43,577	1,655	9,929	55,161
Processing fees	32,836	853	8,955	42,644	53,615	2,036	12,216	67,867
Information technology	28,566	742	7,791	37,099	30,055	1,141	6,848	38,044
Printing and postage	25,566	664	6,972	33,202	22,042	837	5,023	27,902
Office supplies	25,335	658	6,909	32,902	25,598	972	5,832	32,402
Interest	21,279	553	5,803	27,635	17,301	657	3,942	21,900
Transportation	21,013	546	5,731	27,290	15,289	581	3,484	19,354
Telephone and internet	16,741	435	4,566	21,742	19,140	727	4,361	24,228
Miscellaneous	10,226	266	2,789	13,281	7,041	268	1,604	8,913
Advertising	8,796	228	2,398	11,422	4,003	152	912	5,067
Equipment	5,159	134	1,407	6,700	8,510	323	1,939	10,772
Dues and subscriptions	3,599	93	982	4,674	5,790	220	1,319	7,329
Storage	2,182	57	595	2,834	4,302	163	980	5,445
Licenses and fees	1,133	29	309	1,471	1,224	46	279	1,549
Education	545	-	-	545	167	-	-	167
Loss on disposal of assets	-	-	-	-	153,605	5,833	34,999	194,437
Thrift shop commissions	-	-	-	-	-	-	9,823	9,823
Total	\$ 2,716,701	\$ 197,889	\$ 671,993	\$ 3,586,583	\$ 2,573,288	\$ 221,826	\$ 547,927	\$ 3,343,041

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (57,943)	\$ 11,212,090
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	183,087	181,805
Loss on disposal of fixed assets	-	194,437
Financing lease	33	-
Unrealized (gain) loss on investments	1,392,383	(283,577)
Realized gain on investments	(61,841)	(198,185)
(Increase) decrease in contributions receivable	662,534	(3,619,189)
(Increase) decrease in accounts receivable	96,249	(273,607)
Decrease in inventory	13,055	8,104
(Increase) decrease in prepaid expenses and other assets	2,281	(7,377)
(Increase) decrease in security deposits	6,740	(200)
Increase in accounts payable and accrued expenses	1,044,235	887,946
Increase in deferred revenue	63,275	-
	<u>3,344,088</u>	<u>8,102,247</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments on mortgage receivable	12,297	11,583
Purchase of investments	(4,457,366)	(3,375,813)
Sale of investments	4,570,660	3,511,660
Increase in construction-in-progress	(9,008,752)	(3,507,618)
Purchase of fixed assets	(48,842)	(28,710)
	<u>(8,932,003)</u>	<u>(3,388,898)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	1,325,500	-
Payment on line of credit	-	(320,000)
Reduction of finance lease liability	(1,534)	-
	<u>1,323,966</u>	<u>(320,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,263,949)	4,393,349
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,513,471	1,120,122
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,249,522	\$ 5,513,471
SUPPLEMENTAL CASH FLOW INFORMATION:		
Retirement of fully depreciated fixed assets	\$ 47,330	\$ 401,776
Right-of-use assets obtained in exchange for finance lease liability	\$ 7,441	\$ -
CASH PAID DURING THE YEAR FOR:		
Interest	\$ 27,635	\$ 21,900

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Nature of organization:

Animal Rescue Fund of the Hamptons, Inc. ("ARF") was founded in 1974 in East Hampton, New York, as a shelter and adoption center for homeless animals on Long Island's East End. ARF is a no-kill shelter where animals are only euthanized in cases of untreatable and debilitating illness or severe, dangerous behavior. Since its founding, ARF has extended the reach of its adoption program to families across Long Island to New York City, and its rescue work has transported thousands of cats and dogs from communities across the nation where animal over-population results in euthanasia of cats and dogs for space in municipal shelters. Additionally, ARF's Operation Cat, a trap/alter/release program to humanely reduce the feral cat population, has performed over 30,000 spay/neuter surgeries on cats in eastern Suffolk County and led to the adoption of thousands of kittens who would otherwise grow up unsocialized and homeless.

(2) Summary of significant accounting policies:

The accompanying financial statements include the assets, liabilities, revenues and expenses of ARF which are presented under the accrual basis of accounting. The following is a summary of significant accounting policies followed by ARF.

Basis of accounting and financial statement presentation -

The accompanying financial statements include the accounts of ARF's programs, administration and fundraising. ARF presents its financial statements in accordance with U.S. generally accepted accounting principles, which require that ARF's financial statements distinguish net assets and changes in net assets between those with and without donor restrictions. ARF's net assets consist of the following:

Without donor restrictions - net assets which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of ARF.

With donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

As required by U.S. generally accepted accounting principles, ARF has also presented Statements of Cash Flows for the years ended December 31, 2022 and 2021.

Cash and cash equivalents -

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents, including money market funds.

Contributions receivable, net -

Contributions receivable are recognized as support in the period pledged and are recorded at the present value of estimated cash flow. The discount on these amounts is computed using a risk-adjusted rate applicable to the years in which the promises are to be received. Amortization of the discount is recorded as an addition to contribution revenue in accordance with donor-imposed restrictions. As of December 31, 2022 and 2021, the discount for contributions receivable totaled \$240,987 and \$224,287, respectively. This resulted in a net contributions receivable as of December 31, 2022 and 2021 of \$3,334,013 and \$3,996,547, respectively.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Inventory -

Inventory consists of donated goods held for resale that is stated at the lower of cost or net realizable value.

Investments -

Investments are stated at fair value for the period presented. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") on fair value measurements also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Fixed assets -

Fixed assets are capitalized at cost or, if donated, at fair market value as of the date of receipt. The cost of fixed assets purchased in excess of \$1,000 is capitalized. Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings and improvements	31-40 years
Equipment and fixtures	3-20 years
Vehicles	5 years
Website	3 years

Impairment of long-lived assets and long-lived assets to be disposed of -

ARF follows the provisions of the FASB ASC on accounting for the impairment or disposal of long-lived assets which require that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. These principles did not have a material impact on the ARF's financial position, results of activities or liquidity during the years ended December 31, 2022 and 2021.

Conditional asset retirement obligations -

The FASB ASC on accounting for conditional asset retirement and environmental obligations requires ARF to recognize a liability for the fair value of its legal obligation to perform an asset retirement activity, even though uncertainty exists about the timing and/or method of settlement, if and when the fair value of the liability can be reasonably estimated. As of December 31, 2022 and 2021, ARF has met the provisions of and is in compliance with these requirements and no obligation currently exists.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Right-of-use assets and lease liabilities -

Effective January 1, 2022, ARF adopted FASB Accounting Standards Update (“ASU”) No. 2016-02, Leases (“Topic 842”). The new guidance increases transparency by requiring the recognition of right-of-use assets and lease liabilities on the Statements of Financial Position. The recognition of these lease assets and lease liabilities represents a change from previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease, have not significantly changed from previous GAAP requirements.

On January 1, 2022, the effective date of Topic 842, existing leases of ARF were required to be recognized and measured. Additionally, any leases entered into during the year were also required to be recognized and measured. In applying Topic 842, ARF made an accounting policy election not to recognize the right-of-use assets and lease liabilities relating to short-term leases. Implementation of Topic 842 involved an analysis of contracts, including equipment leases and service contracts to identify embedded leases, in order to determine the initial recognition of the right-of-use assets and lease liabilities, which required subjective assessment over the determination of the associated discount rates to apply in determining the lease liabilities.

The adoption of Topic 842 with respect to these leases resulted in the recording of financing lease right-of-use assets of \$5,846 and financing lease liabilities of \$5,940 as of December 31, 2022.

ARF determines if an arrangement is or contains a lease at inception. ARF’s finance lease arrangement is comprised of an equipment lease. Right-of-use assets represent ARF’s right to use the underlying asset for the lease terms and lease liabilities represent ARF’s obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of the lease payments over the lease terms. As ARF’s leases do not provide an implicit rate and the implicit rate is not readily determinable, ARF estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments. The present value of the lease payments was determined using a 2.26% incremental borrowing rate. Right-of-use assets also exclude lease incentives.

Revenue recognition -

ARF complies with and accounts for its revenues in accordance with FASB ASC 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASC 606, *Revenue from Contracts with Customers*.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The following are the significant revenue recognition accounting policies of ARF:

Contributions and grants - Contributions and grants are recognized as income when received and are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. Conditional contributions are accounted for as a liability or are not recognized as revenue initially, until the barriers to entitlement are overcome, at which point a transaction is recognized as unconditional and classified as either net assets with donor restrictions, or net assets without donor restrictions.

Fundraising revenue - The portion of fundraising revenue that relates to the commensurate value the attendee receives in return is recognized when the related events are held, and performance obligations are met.

Donated assets -

Donated marketable securities and other noncash donations are recorded as contributions, at their estimated fair values, at their dates of donation.

Donated services -

ARF benefits from volunteer services in program, fundraising, and administrative duties from board members and other volunteers. Even though these donated services are valuable to ARF, and help to advance ARF's mission, no amounts have been reflected in the financial statements for such contributed services inasmuch as such services do not meet the criteria for recognition in the financial statements nor do they create or enhance nonfinancial assets.

Functional expenses -

Expenses are recognized when incurred. The Statements of Functional Expenses report certain categories of expenses that are attributable to one or more program or supporting functions of ARF. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Direct program expenses are reported in their respective functional categories. The significant expenses that are allocated include: salaries, employee benefits and payroll taxes which are allocated on the basis of estimates of time and effort. Depreciation is allocated on the basis of square footage and use, and all other expenses are allocated on a systematic and rational basis.

Liquidity considerations -

Quantitative

As of December 31, 2022, ARF has \$7,063,986 of current assets available to meet cash needs for program and supporting services expenditures within one year of the Statement of Financial Position date. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for expenditures within the ensuing fiscal year.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Qualitative

As part of ARF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, ARF has a committed line of credit in the amount of \$2,000,000, which it could draw upon.

Income taxes -

ARF qualifies as a tax exempt not-for-profit organization under Internal Revenue Code ("IRC") Section 501(c)(3) and applicable New York State tax laws. Accordingly, no provision for federal or state income taxes is required.

Uncertainty in income taxes -

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition. The Organization is no longer subject to examination by the applicable taxing jurisdictions for tax years prior to 2019.

The use of estimates in preparation of financial statements -

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(3) Fair value measurement:

The FASB Fair Value Measurement standard clarifies the definition of fair value for financial reporting, establishes framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. ARF has adopted the standard for its financial assets and liabilities measured on a recurring and nonrecurring basis.

Fair Value Measurement defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reported entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following methods and assumptions were used by ARF in addressing the fair value of financial instruments:

Cash and cash equivalents -

The carrying amounts reported in the Statements of Financial Position for cash and cash equivalents approximate those assets' fair values (which include money market funds).

**ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Mutual funds -

Mutual funds consist primarily of equities, bonds and U.S. government securities.

All of the investments held by ARF are considered Level 1 investments because they are regularly traded and have quoted prices in active markets.

As of December 31, 2022 and 2021, ARF did not possess any level 2 or 3 type of investments.

ARF's financial instruments consist of mutual funds only. The fair value and historical cost of ARF's mutual funds as of December 31, 2022 and 2021 were as follows:

	2022		2021	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	\$ 5,318,897	\$ 5,358,266	\$ 6,762,733	\$ 5,409,719

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment holdings could occur in the near term and that change could materially affect the amounts reported in the accompanying Statements of Financial Position.

(4) Fixed assets:

Fixed assets as of December 31, 2022 and 2021 are comprised of the following:

	2022	2021
Land	\$ 384,432	\$ 384,432
Buildings and improvements	5,940,478	5,940,478
Equipment and fixtures	123,964	156,472
Vehicles	554,409	554,409
Website	36,895	2,875
	7,040,178	7,038,666
Less: accumulated depreciation	3,536,657	3,402,495
Fixed assets, net	\$ 3,503,521	\$ 3,636,171

(5) Inventory:

ARF has a thrift store in Sagaponack, New York to sell clothing, furniture, and other goods donated by the general public. ARF records all such donated items at their estimated fair values at the dates of donation and later resells such items for an amount that approximates their donated values. During 2022 and 2021, ARF received \$535,408 and \$553,353, respectively, in donated items. Any unsold items are maintained within inventory at estimated fair value. ARF collects sales taxes from customers of this thrift store and remits these amounts to applicable taxing authorities.

**ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

(6) Assigned mortgage receivable:

ARF received an assigned mortgage receivable in February 1996 with imposed donor restrictions. The value of the donated mortgage at the date of donation was \$203,550. The balance at December 31, 2022 and 2021 was \$34,151 and \$46,448, respectively. ARF is collecting monthly installments of \$1,229, including interest of 6.00%, with satisfaction of the mortgage in June 2025 or when the mortgagee has transferred the underlying house that secures the mortgage.

These mortgage payments are restricted by the donor for building and grounds repairs and maintenance. Principal payments to be received for the mortgage balance are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	13,055
2024	13,860
2025	7,236
	<u>\$ 34,151</u>

(7) Contributions receivable, net:

Contributions receivable consist of unconditional promises to give. The significant majority of which are donor restricted and are as follows as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Contributions receivable	\$ 3,575,000	\$ 4,220,834
Less: unamortized discount	<u>(240,987)</u>	<u>(224,287)</u>
Net contributions receivable	<u>\$ 3,334,013</u>	<u>\$ 3,996,547</u>
Amounts due in:		
One year or less	\$ 1,159,348	\$ 1,055,536
Two to five years	<u>2,174,665</u>	<u>2,941,011</u>
Net contributions receivable	<u>\$ 3,334,013</u>	<u>\$ 3,996,547</u>

Discount rates used to calculate the net present value of the contributions ranged from 3.99% to 5.12% in 2022 and 1.97% to 2.26% in 2021.

(8) Leases:

ARF evaluated current contracts to determine which met the criteria of a lease. The right-of-use ("ROU") assets represent ARF's right to use underlying assets for the lease term, and the lease liabilities represent ARF's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from financing leases, were calculated based on the present value of future lease payments over the lease terms. ARF has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of January 1, 2022, was 2.26%.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

ARF's financing lease consists of a postage machine. As of December 31, 2022, the weighted-average remaining lease term for ARF's financing lease was approximately 3.67 years.

Future minimum payments under these leases are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	1,647
2024	1,647
2025	1,647
2026	1,236
Total	6,177
Less: discount to present value	<u>(237)</u>
	<u>\$ 5,940</u>

(9) Paycheck Protection Program:

On February 1, 2021, ARF received a second draw loan in the amount of \$456,600 to fund payroll and benefits, rent and utilities, through the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which was enacted on March 27, 2020. In accordance with generally accepted accounting principles, ARF has also opted to account for its PPP loan as an in-substance conditional government grant, which should be recognized in income when all conditions or measurable barriers have been substantially met. ARF believes all conditions and measurable barriers have been met during the fiscal year ended December 31, 2021. Accordingly, ARF has recorded the proceeds as revenue, which is reflected in grants in the accompanying Statements of Activities and Changes in Net Assets.

(10) Employee retention credit:

The CARES Act provides an employee retention credit ("ERC"), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during all quarters, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extended and slightly expanded the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages (\$7,000 per employee, for eligible employers) paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter. ARF qualifies for the tax credit under the CARES Act. During the fiscal year ended December 31, 2021, the Company recorded \$263,828 related to the ERC. As of December 31, 2022, ARF has a \$78,974 receivable balance.

(11) Line of credit:

ARF has an operating line of credit agreement with a financial institution, which provides for maximum borrowings of \$2,000,000. Borrowings under this line bear interest at prime rate less 1%. The prime rate as of December 31, 2022 and 2021 was 7.50% and 3.25%, respectively. Borrowings are collateralized by the assets of ARF. As of December 31, 2022 and 2021, \$1,965,500 and \$640,000, respectively, was outstanding on this line of credit.

**ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Interest expense related to the line of credit for the years ended December 31, 2022 and 2021 was \$27,489 and \$21,900, respectively.

(12) Net assets with donor restrictions:

Purpose restricted net assets are available for or relate to the following purposes:

	<u>2022</u>	<u>2021</u>
Capital Campaign	\$ 13,593,022	\$ 11,509,007
Vandivert Fund	140,000	140,000
PUP program	53,263	67,624
Sampson mortgage receivable	34,151	46,448
	<u>\$ 13,820,436</u>	<u>\$ 11,763,079</u>

ARF has restricted funds held in perpetuity, the principal of which is restricted by the donors. Under the terms of the restriction, ARF can use the investment income for program and general operating expenses.

ARF has interpreted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) as allowing it to appropriate for expenditure or accumulate so much of an endowment fund as is determined prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets of a donor-restricted endowment fund shall be donor-restricted assets until appropriated by ARF. ARF classifies the original value of gifts donated to the endowment as net assets with donor restriction in perpetuity. The remaining portion of a donor restricted endowment fund is classified as net assets with donor restrictions until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA. Management has interpreted state law to permit prudent spending from underwater endowments.

ARF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the original value of the gift.

Restricted in perpetuity net assets are restricted to:

	<u>2022</u>	<u>2021</u>
ARF Endowment Fund	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable law requires ARF to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2022 and 2021.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(13) Retirement plan:

During January 2009, ARF started a 401(k) plan for its employees. All employees are eligible after 6 months of service to make contributions to the plan; however, employees over 21 years of age, who have completed 6 months of service, are eligible to receive employer contributions. ARF contributes a non-discretionary dollar for dollar up to 4%, vested immediately. For the years ended December 31, 2022 and 2021, ARF incurred 401(k) match expenses of \$52,464 and \$36,453, respectively. These amounts are included in employee benefits in the Statements of Functional Expenses.

(14) Concentrations of risk:

ARF maintains cash and investments in several bank accounts which are insured by the Federal Deposit Insurance Corporation ("FDIC") and the Securities Investor Protection Corporation ("SIPC"). From time to time, ARF may have cash on deposits with financial institutions that are in excess of FDIC and SIPC limits. ARF has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2022 and 2021 cash in excess of federally insured limits totaled \$498,948 and \$4,765,003, respectively.

(15) Subsequent events:

ARF has evaluated subsequent events through August 12, 2023, which is the date the financial statements were available to be issued. Based on this evaluation, ARF has determined there are no matters which require disclosure in the financial statements.