

**MUTTVILLE**

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

**YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

## **INDEPENDENT AUDITOR'S REPORT**

**Board of Directors  
Muttville  
San Francisco, California**

We have audited the accompanying financial statements of Muttville (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility 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; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Muttville  
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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muttville as of December 31, 2018 and 2017, 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.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.  
Sacramento, California**

**June 14, 2019**

# MUTTVILLE

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,901,728	\$ 5,850,998
Contributions and grants receivable		15,205
Charitable lead annuity trust receivable, current portion	1,001,250	1,001,250
Prepaid expenses and other assets	<u>64,798</u>	<u>11,690</u>
Total current assets	8,967,776	6,879,143
<b>CHARITABLE LEAD ANNUITY TRUST RECEIVABLE, Net</b>	7,042,952	7,825,932
<b>PROPERTY AND EQUIPMENT, Net</b>	<u>178,571</u>	<u>150,488</u>
<b>TOTAL ASSETS</b>	<u>\$ 16,189,299</u>	<u>\$ 14,855,563</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 112,591	\$ 145,843
Accrued expenses	<u>135,553</u>	<u>111,859</u>
Total current liabilities	<u>248,144</u>	<u>257,702</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Board designated reserve for facility acquisition	4,000,000	2,000,000
Undesignated	1,640,642	1,663,479
With donor restrictions	<u>10,300,513</u>	<u>10,934,382</u>
Total net assets	<u>15,941,155</u>	<u>14,597,861</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 16,189,299</u>	<u>\$ 14,855,563</u>

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

# MUTTVILLE

## STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
REVENUES:		
Contributions and grants	\$ 3,272,266	\$ 3,265,551
In-kind contributions	1,892,643	1,839,528
Fundraising event revenues (net of direct benefit to donors of \$88,044 in 2018 and \$118,622 in 2017)	765,027	608,024
Other income	64,771	21,513
Net assets released from restrictions	<u>1,185,896</u>	<u>248,142</u>
Total revenues	<u>7,180,603</u>	<u>5,982,758</u>
EXPENSES:		
Program services:		
Animal care and adoption	<u>4,168,091</u>	<u>3,988,232</u>
Supporting services:		
Fundraising	652,361	578,034
General and administrative	<u>382,988</u>	<u>459,579</u>
Total supporting services	<u>1,035,349</u>	<u>1,037,613</u>
Total expenses	<u>5,203,440</u>	<u>5,025,845</u>
<b>INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>1,977,163</u>	<u>956,913</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions and grants	552,027	11,032,830
Net assets released from restrictions	<u>(1,185,896)</u>	<u>(248,142)</u>
<b>INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>(633,869)</u>	<u>10,784,688</u>
<b>INCREASE IN NET ASSETS</b>	1,343,294	11,741,601
<b>NET ASSETS, Beginning of Year</b>	<u>14,597,861</u>	<u>2,856,260</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 15,941,155</u>	<u>\$ 14,597,861</u>

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

## MUTTVILLE

### STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	<b>Animal care and adoption</b>	<b>Supporting Services</b>		<b>Total</b>	<b>Animal care and adoption</b>	<b>Supporting Services</b>		<b>Total</b>
	<b>Fundraising</b>	<b>General and administrative</b>			<b>Fundraising</b>	<b>General and administrative</b>		
Animal care	\$ 1,716,155		\$	\$ 1,716,155	\$ 1,768,245			\$ 1,768,245
Personnel	904,440	\$ 262,519	198,464	1,365,423	813,724	\$ 308,122	\$ 161,749	1,283,595
Professional fees	1,056,644	25,822	133,400	1,215,866	1,050,655	21,164	230,123	1,301,942
Facilities and equipment rentals	341,127	1,031	7,215	349,373	204,954	1,110	4,390	210,454
Events	-	162,412		162,412		143,475		143,475
Supplies	88,313	17,501	17,159	122,973	66,932	12,939	15,703	95,574
Printing	3,136	69,833	24	72,993	2,170	29,774	21	31,965
Depreciation	31,032	6,378	5,101	42,511	28,542	5,865	4,693	39,100
Bank fees	23	41,841	406	42,270	2,537	16,165	920	19,622
Postage and shipping	1,788	36,603	588	38,979	2,361	17,764	207	20,332
Telecommunications	9,459	3,400	236	13,095	9,773	2,809	189	12,771
Transportation	4,070	35	1,833	5,938	13,089	85	2,191	15,365
Other expenses	11,904	24,986	18,562	55,452	25,250	18,762	39,393	83,405
<b>Total</b>	<b>\$ 4,168,091</b>	<b>\$ 652,361</b>	<b>\$ 382,988</b>	<b>\$ 5,203,440</b>	<b>\$ 3,988,232</b>	<b>\$ 578,034</b>	<b>\$ 459,579</b>	<b>\$ 5,025,845</b>

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

# MUTTVILLE

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 1,343,294	\$ 11,741,601
Reconciliation to net cash provided by operating activities:		
Donated property and equipment	(1,200)	
Donated investments	(226,722)	
Depreciation	42,511	39,100
Gain on investments	(679)	
Changes in:		
Contributions and grants receivable	15,205	(2,265)
Charitable lead annuity trust receivable	782,980	(8,827,182)
Prepaid expenses and other assets	(53,108)	(9,190)
Accounts payable	(58,966)	66,915
Accrued expenses	49,408	11,591
Net cash provided by operating activities	<u>1,892,723</u>	<u>3,020,570</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of donated investments	227,401	
Purchases of property and equipment	<u>(69,394)</u>	<u>(112,147)</u>
Net cash provided (used) by investing activities	<u>158,007</u>	<u>(112,147)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,050,730	2,908,423
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>5,850,998</u>	<u>2,942,575</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 7,901,728</u>	<u>\$ 5,850,998</u>

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### 1. ORGANIZATION AND NATURE OF ACTIVITIES

Muttville, founded in 2007, is a California nonprofit public benefit corporation dedicated to helping older dogs. Shelters and other animal organizations refer senior dogs, many at the risk of euthanasia, to Muttville. Muttville takes as many as they have capacity for, gives them the care they need, promotes them to find them new homes and works with adopters to help create a lasting bond.

Muttville has its own cage-free facility, housing newly rescued senior dogs while they wait to be matched with foster homes, and its own in-house vet suite, to ensure that dogs are efficiently treated and to inform potential adopters of some health issues.

Muttville advocates for and educates about senior dogs, both to the public at large and within the animal welfare community. Muttville's groundbreaking programs, including foster and hospice, have been studied by other animal welfare organizations around the world seeking to help senior animals.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting and financial statement presentation** – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. Muttville reports information regarding its financial position and activities according to two classes of net assets: *without donor restrictions* and *with donor restrictions*. Muttville has no net assets with donor restrictions that are perpetual in nature.

**Revenue recognition** – Contributions and grants are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions and grants are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose.

Donated goods, facilities, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

Fundraising event revenues are recognized when the related event occurs.

**Cash and cash equivalents** – Muttville considers all highly liquid investments with a maturity date of three months or less to be cash equivalents, unless held for long-term purposes.

Muttville minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Company deposits held with financial institutions in excess of federal depository insurance limits were \$1,100,137 and \$5,060,836 as of December 31, 2018 and 2017, respectively. Muttville has not experienced any losses in such accounts and management believes Muttville is not exposed to any significant credit risk related to cash.



# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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**Property and equipment** – Property and equipment are stated at cost if purchased or, if donated, at fair market value on the date of donation. Muttville capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 15 years.

**Income taxes** – Muttville is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the corresponding provision of the California Revenue and Taxation Code.

**Fair value measurements** – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- |                |   |
|----------------|---|
| Level 1 Inputs | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. |
| Level 2 Inputs | Inputs other than quoted prices in active markets that are observable either directly or indirectly.                        |
| Level 3 Inputs | Unobservable inputs for the asset or liability.   |

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Functional allocation of expenses** – The costs of providing the program services have been summarized on a functional basis in the statements of activities and of functional expenses. Personnel costs are allocated based on employees' time incurred. Office supplies, printing, equipment rentals, postage, telecommunications, professional fees, etc. are allocated based on management's estimates of usage of resources. All other costs are based on actual usage of resources.

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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**Recent accounting pronouncements** – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and consistency in the type of information provided about expenses and investment return. Muttville has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, with the exception of the liquidity disclosures, which have not been applied for the year ended December 31, 2017 as allowed by the transition guidance of this ASU.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. Application of this statement is effective for the year ending December 31, 2019. Muttville is currently evaluating the impact this pronouncement will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, Topic 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. Application of this statement is effective for transactions in which the entity serves as the resource recipient for the year ending December 31, 2019. For transactions in which the entity serves as the resource provider, the statement is effective for the year ending December 31, 2020. Muttville is currently evaluating the impact this pronouncement will have on the financial statements.

**Subsequent events** have been reviewed through June 14, 2019, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2018 that require recognition or disclosure in the financial statements.

**Reclassification** – Certain 2017 amounts have been reclassified to conform with the 2018 financial statement presentation.

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Muttville's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2018</u>
Cash and cash equivalents	\$ 7,901,728
Charitable lead annuity trust receivable, net	<u>8,044,202</u>
Total financial assets	15,945,930
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(2,256,311)
Restricted by donors with time restrictions	(8,044,202)
Board-designated:	
Reserve for facility acquisition	<u>(4,000,000)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 1,645,417</u>

Muttville has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$864,000. The Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, Muttville invests cash in amounts that exceed normal operating requirements in investments, specifically short-term certificates of deposit. As certificates of deposit mature, operating liquidity is assessed before reinvesting the funds.

### 4. PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 161,376	\$ 93,638
Leasehold improvements	103,874	103,874
Vehicles	29,000	29,000
Construction in progress	<u>21,412</u>	<u>19,856</u>
Total	315,662	246,368
Less accumulated depreciation	<u>(137,091)</u>	<u>(95,880)</u>
Total	<u>\$ 178,571</u>	<u>\$ 150,488</u>

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

### 5. CHARITABLE LEAD ANNUITY TRUST

During 2017, a donor established a charitable lead annuity trust naming Muttville as the lead beneficiary. Under the terms of this split-interest agreement, Muttville is to receive approximately \$1,000,000 annually over a ten year period beginning in 2018. The contribution receivable and revenue related to this charitable lead annuity trust were recorded at the estimated fair value using a discount rate of 2.6% and are classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions.

### 6. NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Time restricted	\$ 8,044,202	\$ 8,827,182
Capital campaign	2,175,000	2,038,000
Seniors for Seniors	32,500	25,217
Veterinarian suite renovation	3,409	2,290
Veterinarian salary		12,551
Other	<u>45,402</u>	<u>29,142</u>
Total	<u>\$ 10,300,513</u>	<u>\$ 10,934,382</u>

The Board of Directors has designated \$4,000,000 of Muttville's net assets without donor restrictions as a reserve for the planned acquisition of a headquarters facility.

### 7. IN-KIND CONTRIBUTIONS

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

	<u>2018</u>	<u>2017</u>
Advertising	\$ 985,000	\$ 986,200
Veterinary services	350,406	363,138
Rent	309,208	170,783
Professional services	185,800	239,991
Merchandise	<u>62,229</u>	<u>79,416</u>
Total	<u>\$ 1,892,643</u>	<u>\$ 1,839,528</u>

### 8. RELATED PARTY TRANSACTIONS

A Board Member of Muttville is the owner of a communications consulting firm that performs marketing services for Muttville. Muttville paid marketing fees to the firm in the amount of \$46,000 and \$32,000 for the years ending December 31, 2018 and 2017, respectively.