

**MUTTVILLE**

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

**YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

## **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, 2019 and 2018, 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, 2019 and 2018, 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.

A handwritten signature in black ink that reads "Gilbert CPAs". The signature is written in a cursive, flowing style.

**GILBERT CPAs**  
**Sacramento, California**

**June 24, 2020**

# MUTTVILLE

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 8,768,463	\$ 7,901,728
Contributions and grants receivable	110,767	15,661
Charitable lead annuity trust receivable, current portion	1,001,250	1,001,250
Prepaid expenses	80,393	49,137
Deposit on property purchase	<u>1,000,000</u>	<u>                    </u>
Total current assets	10,960,873	8,967,776
<b>CHARITABLE LEAD ANNUITY TRUST RECEIVABLE, Net</b>	6,239,614	7,042,952
<b>PROPERTY AND EQUIPMENT, Net</b>	<u>222,143</u>	<u>178,571</u>
<b>TOTAL ASSETS</b>	<u>\$ 17,422,630</u>	<u>\$ 16,189,299</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 143,980	\$ 112,591
Accrued expenses	<u>75,941</u>	<u>135,553</u>
Total current liabilities	<u>219,921</u>	<u>248,144</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Board designated reserve for facility acquisition	4,000,000	4,000,000
Undesignated	3,558,256	1,640,642
With donor restrictions	<u>9,644,453</u>	<u>10,300,513</u>
Total net assets	<u>17,202,709</u>	<u>15,941,155</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 17,422,630</u>	<u>\$ 16,189,299</u>

# MUTTVILLE

## STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
REVENUES:		
Contributions and grants	\$ 3,585,246	\$ 3,272,266
In-kind contributions	1,882,856	1,892,643
Fundraising event revenues (net of direct benefit to donors of \$80,556 in 2019 and \$88,044 in 2018)	801,252	765,027
Other income	115,338	64,771
Net assets released from restrictions	<u>1,271,402</u>	<u>1,185,896</u>
Total revenues	<u>7,656,094</u>	<u>7,180,603</u>
EXPENSES:		
Program services:		
Animal care and adoption	<u>4,425,985</u>	<u>4,168,091</u>
Supporting services:		
Fundraising	814,825	652,361
General and administrative	<u>497,670</u>	<u>382,988</u>
Total supporting services	<u>1,312,495</u>	<u>1,035,349</u>
Total expenses	<u>5,738,480</u>	<u>5,203,440</u>
<b>INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>1,917,614</u>	<u>1,977,163</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions and grants	615,342	552,027
Net assets released from restrictions	<u>(1,271,402)</u>	<u>(1,185,896)</u>
<b>DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>(656,060)</u>	<u>(633,869)</u>
<b>INCREASE IN NET ASSETS</b>	1,261,554	1,343,294
<b>NET ASSETS, Beginning of Year</b>	<u>15,941,155</u>	<u>14,597,861</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 17,202,709</u>	<u>\$ 15,941,155</u>

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

## MUTTVILLE

### STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	<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	\$ 1,764,293			\$ 1,764,293	\$ 1,716,155			\$ 1,716,155
Personnel	1,028,025	\$ 358,469	\$ 211,802	1,598,296	904,440	\$ 262,519	\$ 198,464	1,365,423
Professional fees	1,087,609	98,702	247,250	1,433,561	1,056,652	41,026	150,245	1,247,923
Facilities and equipment rentals	371,098	1,371	7,554	380,023	341,127	1,031	7,215	349,373
Events	49	146,913		146,962		162,412		162,412
Supplies	90,103	15,187	20,507	125,797	88,313	17,501	17,159	122,973
Printing	1,610	88,267	65	89,942	3,136	69,833	24	72,993
Bank fees		46,720	959	47,679	23	41,841	406	42,270
Depreciation	34,490	7,087	5,670	47,247	31,032	6,378	5,101	42,511
Postage and shipping	2,107	36,205	168	38,480	1,788	36,603	588	38,979
Telecommunications	10,998	5,480	364	16,842	9,459	3,400	236	13,095
Transportation	6,215	82	1,997	8,294	4,070	35	1,833	5,938
Other expenses	29,388	10,342	1,334	41,064	11,896	9,782	1,717	23,395
<b>Total</b>	<b>\$ 4,425,985</b>	<b>\$ 814,825</b>	<b>\$ 497,670</b>	<b>\$ 5,738,480</b>	<b>\$ 4,168,091</b>	<b>\$ 652,361</b>	<b>\$ 382,988</b>	<b>\$ 5,203,440</b>

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

# MUTTVILLE

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

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	<u>2019</u>	<u>2018</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 1,261,554	\$ 1,343,294
Reconciliation to net cash provided by operating activities:		
Donated property and equipment	(18,000)	(1,200)
Donated investments	(59,906)	(226,722)
Depreciation	47,247	42,511
Loss (gain) on investments	158	(679)
Changes in:		
Contributions and grants receivable	(95,106)	(456)
Charitable lead annuity trust receivable	803,338	782,980
Prepaid expenses	(31,256)	(37,447)
Deposit on property purchase	(1,000,000)	
Accounts payable	31,389	(58,966)
Accrued expenses	(59,612)	49,408
Net cash provided by operating activities	<u>879,806</u>	<u>1,892,723</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of donated investments	59,748	227,401
Purchases of property and equipment	<u>(72,819)</u>	<u>(69,394)</u>
Net cash provided (used) by investing activities	<u>(13,071)</u>	<u>158,007</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	866,735	2,050,730
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>7,901,728</u>	<u>5,850,998</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 8,768,463</u>	<u>\$ 7,901,728</u>

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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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. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. 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 in the year 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. Muttville's deposits of cash held with financial institutions in excess of federal depository insurance limits were \$8,140,676 and \$1,100,137 as of December 31, 2019 and 2018, 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, 2019 AND 2018

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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. In the year ending December 31, 2019, Muttville paid a \$1,000,000 refundable deposit to obtain their new headquarters. This deposit is considered refundable until the purchase of the building was finalized, which occurred subsequent to December 31, 2019.

**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. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel costs are allocated based on employees' time incurred.

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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.

**Recent accounting pronouncements** – In May 2014, the Financial Accounting Standards Board (FASB) issued Topic 606, *Revenue from Contracts with Customers*. 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. Muttville has implemented Topic 606 effective January 1, 2019 with no effect on beginning net assets.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (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. Muttville has implemented this accounting standard in the accompanying financial statements effective January 1, 2019 under the modified prospective basis. Accordingly, there is no effect on beginning net assets in connection with the implementation of ASU 2018-08.

**Reclassifications** – Certain 2018 amounts have been reclassified to conform with the 2019 financial statement presentation.

**Subsequent events** have been reviewed through June 24, 2020, the date the financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2019, that require recognition or disclosure in such financial statements, except as noted in footnote 10.

### 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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 8,768,463	\$ 7,901,728
Contributions and grants receivable	110,767	15,661
Charitable lead annuity trust receivable, net	<u>7,240,864</u>	<u>8,044,202</u>
Total financial assets	16,120,094	15,961,591
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors for time or purpose	(9,644,453)	(10,300,513)
Board-designated:		
Reserve for facility acquisition	<u>(4,000,000)</u>	<u>(4,000,000)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 2,475,641</u>	<u>\$ 1,661,078</u>

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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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 \$1,000,000. Muttville 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>2019</u>	<u>2018</u>
Furniture and equipment	\$ 234,047	\$ 161,376
Leasehold improvements	121,144	103,874
Vehicles	29,000	29,000
Construction in progress	<u>21,412</u>	<u>21,412</u>
Total	405,603	315,662
Less accumulated depreciation	<u>(183,460)</u>	<u>(137,091)</u>
Total	<u>\$ 222,143</u>	<u>\$ 178,571</u>

#### 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.

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

### 6. OPERATING LEASES

Muttville leases office space and equipment under non-cancelable operating leases expiring at various dates through December 2023. Total expenses under the office space and equipment leases were \$108,513 and \$103,263 in 2019 and 2018, respectively.

Future minimum payments are as follows:

<b><u>Year Ending</u></b> <b><u>December 31,</u></b>	
2020	\$ 112,263
2021	104,160
2022	89,040
2023	<u>84,540</u>
Total	<u>\$ 390,003</u>

### 7. NET ASSETS

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

	<b><u>2019</u></b>	<b><u>2018</u></b>
Time restriction	\$ 7,240,864	\$ 8,044,202
Capital campaign	2,175,000	2,175,000
Seniors for Seniors	91,585	32,500
Veterinarian suite renovation	16,954	3,409
Other	<u>120,050</u>	<u>45,402</u>
Total	<u>\$ 9,644,453</u>	<u>\$ 10,300,513</u>

The Board of Directors has designated \$4,000,000 at both December 31, 2019 and 2018 of Muttville's net assets without donor restrictions as a reserve for the acquisition of a headquarters facility.

### 8. IN-KIND CONTRIBUTIONS

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

	<b><u>2019</u></b>	<b><u>2018</u></b>
Advertising	\$ 951,174	\$ 985,000
Veterinary services	328,649	350,406
Rent	309,208	309,208
Professional services	229,206	185,800
Merchandise	<u>64,619</u>	<u>62,229</u>
Total	<u>\$ 1,882,856</u>	<u>\$ 1,892,643</u>

# MUTTVILLE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 9. RELATED PARTY TRANSACTIONS

Two Board Members of Muttville are owners of communications consulting firms that perform marketing services for Muttville. Muttville paid total marketing fees to these firms in the amount of \$66,000 and \$46,000 for the years ending December 31, 2019 and 2018, respectively.

### 10. LONG-TERM DEBT AND SUBSEQUENT EVENTS

In January 2020, Muttville entered into a loan agreement with Umpqua Bank to borrow \$10,000,000 to purchase Muttville's new headquarters. The loan carries an interest rate equal to 3.6%. Payments of interest and principal totaling \$50,880 are due monthly beginning on March 1, 2020 until February 1, 2030 at which time a balloon payment of \$7,073,114 will be due.

The future annual are as follows:

<b><u>Year Ending December 31,</u></b>	
2020	\$ 222,983
2021	251,982
2022	259,311
2023	274,662
Thereafter	<u>8,991,062</u>
Total	<u>\$ 10,000,000</u>

In April 2020, Muttville received a Paycheck Protection Program (PPP) loan under the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act totaling \$227,300. The terms and repayment conditions of PPP loans were modified through the subsequent Paycheck Protection Program Flexibility Act (PPPPFA) signed into law in June 2020. Under the CARES Act, as modified by PPPFA, a portion or all of the loan and accrued interest may be forgiven provided the funds are spent on qualifying payroll and other expenditures in the 24-week period following the loan and provided certain other criteria regarding full-time equivalent employee and payroll levels are maintained. The portion of the loan that does not qualify for forgiveness or any additional amount that Muttville chooses to maintain as a loan, is required to be repaid within 5 years at 1% interest.

Additionally, as a result of the COVID-19 outbreak, subsequent to year end, economic uncertainties have arisen which are likely to have a negative impact on Muttville's income. However, the related financial impact and duration cannot be reasonably estimated at this time.