

**TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION**

**(A California Not-For-Profit Corporation)**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND JUNE 30, 2017**

**TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION**

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**JUNE 30, 2018 AND JUNE 30, 2017**

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## **Independent Auditor's Report**

The Board of Directors  
Tony La Russa's Animal Rescue Foundation  
Walnut Creek, California

We have audited the accompanying financial statements of Tony La Russa's Animal Rescue Foundation (a California not-for-profit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tony La Russa's Animal Rescue Foundation as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

**Report on Summarized Comparative Information**

We have previously audited the Tony La Russa's Animal Rescue Foundation's 2017 financial statements, and our report dated October 24, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Anthony Koran CPA". The signature is written in a cursive style.

*Danville, California  
October 18, 2018*

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## STATEMENT OF FINANCIAL POSITION

As of June 30, 2018

(With summarized financial information as of June 30, 2017)

<u>ASSETS</u>	June 30, 2018				Year Ended June 30, 2017 Comparative Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>CURRENT:</b>					
Cash and cash equivalents	\$ 805,813	\$ 114,605	\$ -	\$ 920,418	\$ 441,569
Cash restricted for capital campaign	-	283,932	-	283,932	-
Accounts receivable, net	25,853	-	-	25,853	40,556
Contributions receivable (note 10)	-	-	-	-	10,000
Pledges receivable (note 10)	-	177,500	-	177,500	-
Inventory, net (note 5)	101,643	-	-	101,643	96,876
Prepaid expenses	72,940	-	-	72,940	102,501
<b>TOTAL CURRENT ASSETS</b>	<b>1,006,249</b>	<b>576,037</b>	<b>-</b>	<b>1,582,286</b>	<b>691,502</b>
<b>OTHER:</b>					
Investments (note 7)	26,257,739	421,349	1,612,549	28,291,637	26,039,602
Pledges receivable, net (note 10)	-	197,215	-	197,215	-
Deposits	94,987	-	-	94,987	8,510
Construction in progress (note 15)	537,322	-	-	537,322	119,149
Property and equipment, net (note 11)	13,142,053	-	-	13,142,053	13,378,303
	<b>\$ 41,038,350</b>	<b>\$ 1,194,601</b>	<b>\$ 1,612,549</b>	<b>\$ 43,845,500</b>	<b>\$ 40,237,066</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT:</b>					
Accounts and other payables	\$ 380,675	\$ -	\$ -	\$ 380,675	\$ 135,602
Accrued expenses	240,008	-	-	240,008	210,770
Deferred revenue	268,385	-	-	268,385	277,027
<b>TOTAL CURRENT LIABILITIES</b>	<b>889,068</b>	<b>-</b>	<b>-</b>	<b>889,068</b>	<b>623,399</b>
<b>NET ASSETS (note 13)</b>	<b>40,149,282</b>	<b>1,194,601</b>	<b>1,612,549</b>	<b>42,956,432</b>	<b>39,613,667</b>
	<b>\$ 41,038,350</b>	<b>\$ 1,194,601</b>	<b>\$ 1,612,549</b>	<b>\$ 43,845,500</b>	<b>\$ 40,237,066</b>

**TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2018**

**(With summarized financial information for the year ended June 30, 2017)**

	Year Ended June 30, 2018				Year Ended June 30, 2017 Comparative Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>OPERATING REVENUES &amp; OTHER SUPPORT:</b>					
Contributions	\$ 4,247,255	\$ 990,003	\$ -	\$ 5,237,258	\$ 5,076,019
Special events, net of expenses of \$252,245 (note 2)	1,159,414	-	-	1,159,414	1,083,001
Corporate sponsorship	438,500	-	-	438,500	423,750
Program fees	933,451	-	-	933,451	925,947
Retail sales	566,848	-	-	566,848	518,228
Other revenues	42,872	-	-	42,872	1,174
Net assets released from restriction (note 14)	1,887,365	(1,887,365)	-	-	-
<b>TOTAL OPERATING REVENUES &amp; OTHER SUPPORT:</b>	<b>9,275,705</b>	<b>(897,362)</b>	<b>-</b>	<b>8,378,343</b>	<b>8,028,119</b>
<b>OPERATING EXPENSES:</b>					
Program services	6,959,106	-	-	6,959,106	6,176,872
Fundraising expenses (note 2)	522,089	-	-	522,089	458,338
Management and general	495,620	-	-	495,620	477,622
<b>TOTAL OPERATING EXPENSES</b>	<b>7,976,815</b>	<b>-</b>	<b>-</b>	<b>7,976,815</b>	<b>7,112,832</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>1,298,890</b>	<b>(897,362)</b>	<b>-</b>	<b>401,528</b>	<b>915,287</b>
<b>OTHER CHANGES:</b>					
Capital campaign contributions & grants (note 10)	-	1,136,214	-	1,136,214	-
Casualty loss (note 18)	(5,064)	-	-	(5,064)	-
Net investment return including endowment funds (notes 7 and 8)	1,570,013	240,074	-	1,810,087	2,240,227
<b>TOTAL OTHER CHANGES</b>	<b>1,564,949</b>	<b>1,376,288</b>	<b>-</b>	<b>2,941,237</b>	<b>2,240,227</b>
<b>CHANGE IN NET ASSETS</b>	<b>2,863,839</b>	<b>478,926</b>	<b>-</b>	<b>3,342,765</b>	<b>3,155,514</b>
<b>NET ASSETS, beginning of year</b>	<b>37,285,443</b>	<b>715,675</b>	<b>1,612,549</b>	<b>39,613,667</b>	<b>36,458,153</b>
<b>NET ASSETS, end of year</b>	<b>\$ 40,149,282</b>	<b>\$ 1,194,601</b>	<b>\$ 1,612,549</b>	<b>\$ 42,956,432</b>	<b>\$ 39,613,667</b>

**TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2018**

**(With summarized financial information for the year ended June 30, 2017)**

	<b>Year Ended June 30, 2018</b>										<b>Year Ended June 30, 2017 Comparative Totals</b>
	<b>Program Services</b>					<b>Support Services</b>				<b>Total Operating Expenses</b>	
	<b>Animal Care and Adoptions</b>	<b>Training</b>	<b>Veterinary Clinic</b>	<b>Humane Education</b>	<b>Community Outreach</b>	<b>Program Services</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Supporting Services</b>		
Salaries	\$ 1,387,465	\$ 121,509	\$ 1,036,579	\$269,594	\$ 579,946	\$ 3,395,093	\$ 172,414	\$ 275,361	\$ 447,775	\$ 3,842,868	\$ 3,478,050
Payroll tax	109,086	9,508	81,605	21,641	41,993	263,833	13,568	22,965	36,533	300,366	280,197
Employee benefits	195,434	8,209	136,163	20,787	60,059	420,652	28,381	26,437	54,818	475,470	412,542
Total payroll related expense	<u>1,691,985</u>	<u>139,226</u>	<u>1,254,347</u>	<u>312,022</u>	<u>681,998</u>	<u>4,079,578</u>	<u>214,363</u>	<u>324,763</u>	<u>539,126</u>	<u>4,618,704</u>	<u>4,170,789</u>
Occupancy expenses	127,955	40,820	159,771	27,798	149,602	505,946	11,603	15,950	27,553	533,499	410,088
Equipment rental, repairs and maintenance	48,957	8,094	44,636	9,488	92,639	203,814	14,245	25,883	40,128	243,942	173,663
Supplies	11,235	1,758	7,709	19,098	6,951	46,751	1,496	3,117	4,613	51,364	58,643
Printing and publications	94,273	10,280	89,350	12,333	76,261	282,497	99,481	3,641	103,122	385,619	377,724
Postage	4,645	1,159	5,361	773	1,068	13,006	2,859	3,801	6,660	19,666	27,128
Animal care and supplies	189,307	355	349,033	-	269,765	808,460	-	-	-	808,460	886,433
Conferences and education	2,801	-	5,719	2,965	2,177	13,662	3,724	9,630	13,354	27,016	19,165
Professional services	6,701	16,085	33,001	913	57,591	114,291	19,222	80,768	99,990	214,281	142,000
Advertising and promotion	1,960	285	1,074	1,410	36,005	40,734	117,727	242	117,969	158,703	163,339
Cost of goods sold	80,741	552	-	-	-	81,293	-	-	-	81,293	75,550
Travel and transportation	38,576	458	15,557	6,275	16,189	77,055	6,783	8,032	14,815	91,870	57,722
Insurance	45,382	10,296	10,712	7,118	1,684	75,192	1,740	2,660	4,400	79,592	75,644
Other expenses	43,293	6,664	20,776	6,052	213,541	290,326	20,707	2,293	23,000	313,326	144,710
Depreciation (note 11)	174,818	39,705	77,785	26,460	6,207	324,975	8,139	14,840	22,979	347,954	328,982
Bad debts	-	-	1,526	-	-	1,526	-	-	-	1,526	1,252
Total expenses	<u>\$ 2,562,629</u>	<u>\$ 275,737</u>	<u>\$ 2,076,357</u>	<u>\$432,705</u>	<u>\$1,611,678</u>	<u>\$ 6,959,106</u>	<u>\$ 522,089</u>	<u>\$ 495,620</u>	<u>\$ 1,017,709</u>	<u>\$ 7,976,815</u>	<u>\$ 7,112,832</u>

See notes to financial statements.

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and June 30, 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 3,342,765	\$ 3,155,514
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on investments	(1,168,752)	(1,654,204)
(Gain) loss on sale of investments	(7,680)	(87,306)
(Gain) loss on disposal of property and equipment	1,491	-
Depreciation	347,954	328,982
Provision for bad debts	35	1,101
Provision for inventory write-downs	6,897	521
(Increase) decrease in assets:		
Accounts receivable, net	14,668	(6,824)
Contributions receivable	10,000	(10,000)
Pledge receivable, net	(374,715)	-
Inventory	(11,664)	(2,825)
Prepays	(56,916)	(22,859)
Increase (decrease) in liabilities:		
Accounts payable	245,073	2,921
Accrued expenses	29,238	60,504
Deferred revenue	(8,642)	(27,666)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,369,752</b>	<b>1,737,859</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(2,931,809)	(4,155,396)
Proceeds from sale of investments	1,856,206	2,355,691
Property and equipment purchases	(531,368)	(203,457)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(1,606,971)</b>	<b>(2,003,162)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	762,781	(265,303)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>441,569</b>	<b>706,872</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 1,204,350</b>	<b>\$ 441,569</b>
<b>SUPPLEMENTARY INFORMATION</b>		
Cash paid for interest expense	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

See notes to financial statements.



# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### **Note 1. NATURE OF BUSINESS**

Tony La Russa's Animal Rescue Foundation (ARF) was incorporated (as a Not-for-Profit corporation in California) in June 1991 for the purpose of ensuring humane treatment to domesticated animals.

ARF provides rescue, veterinary medical care, spay/neuter and adoption services for homeless cats and dogs; veterinary medical services and pet food sharing for low-income families as well as low cost spay/neuter programs for the community. Community outreach programs for children and teens promote the human/animal bond with a focus on those attending Title One schools as well as visits to people with disabilities or illness and adoptions for military veterans.

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Basis of accounting

ARF maintains its accounting records on the accrual basis of accounting, under which revenues are recognized as earned and expenses are recorded as incurred under generally accepted accounting principles (GAAP) for nonprofit organization in the United States of America.

#### Financial statement presentation

ARF prepares its financial statements following GAAP where the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories follows:

#### *Unrestricted net assets:*

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor imposed stipulations.

#### *Temporarily restricted net assets:*

The portion of net assets whose use by ARF is limited by donor imposed stipulations that either will be fulfilled or expire by passage of time.

#### *Permanently restricted net assets:*

The portion of net assets whose use by ARF is limited by donor imposed stipulations that the net assets be held in perpetuity and its income be used for the stipulated purposes.

#### Cash equivalents

ARF considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of commercial bank deposits available upon demand and money market fund deposits.

#### Cash Restricted for Capital Campaign

Cash restricted for capital campaign represents cash received to be expended for future capital campaign purposes.

#### Capital campaign contributions

Capital Campaign contributions are reported as increases in temporarily restricted net assets and then released to unrestricted net assets if the restriction is met during the year. Other contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other restricted donor contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### Receivables

Accounts receivable represent amounts billed but not yet collected for services. Contributions and trade receivables are stated at the amounts management expect to collect from outstanding balances. Management provides for uncollectible amounts through a charge against revenue and a credit to a valuation allowance based on assessment of historical collectability. The allowance for doubtful accounts was \$1,513 for the year ended June 30, 2018 (\$1,478 in 2017). Balances still outstanding after management has used reasonable collection efforts are written off.

#### Promises to give

Unconditional promises to give are recognized as revenues in the period such promises are made by the donor. Conditional promises to give are recognized only when conditions on which they depend are substantially met and the promise becomes unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable values. Unconditional promises to give that are expected to be collected in future years are reported at the present value of their net realizable value, determined using the risk free interest rate applicable for the year in which the promises are to be received. Amortization of discounts is included in contribution revenue.

#### Inventory

Inventory consists of purchased and donated items for auction or resale and is stated at the lower of cost or market in a first-in, first-out method. For memorabilia items, an adjustment is made to approximate the lower of cost or market based on the fair market value of the items. Goods donated to the thrift shop are not reflected in the financial statements since no objective basis is available to measure their value.

#### Property and equipment

All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Property and equipment are depreciated using the straight-line method over useful lives ranging from 3 to 39 years. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the improvements. Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted net assets support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Maintenance and repairs are charged to expense as incurred. Major renewals or betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities.

#### Fair Value

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

#### Deferred revenue

Deferred revenue consists primarily of fees received in advance in connection with a contract with Purina for advertisement/media appearances, monies received in advance associated with the Camp ARF program to occur in the subsequent fiscal year and other monies received for various other sponsorships. These monies will be recognized as revenue over the period to which they are related.

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments

ARF reports investments with readily determinable fair values at their fair values in the statement of financial position. Donated investments received are recorded as contributions at the fair value of the investment on the date of donation. Gains and losses and investment income derived from investments are accounted for as unrestricted, temporarily restricted or permanently restricted based on restrictions, if any, in the accompanying statement of activities. ARF intends to hold investments for long-term purposes and thus investments have been classified as other assets on the statement of financial position.

ARF invests in various investment vehicles. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reports in the statement of financial position.

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under professional accounting standards are described as follows:

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Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ARF has the ability to access.
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Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• quoted prices for similar assets or liabilities in active markets;</li><li>• quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• inputs other than quoted prices that are observable for the asset or liability;</li><li>• inputs that are derived principally from or corroborated by observable market data, by correlation or other means.</li></ul>
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If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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#### Revenue recognition

Contributions are recognized as revenue when they are unconditionally communicated. Contributions consist principally of donations from individuals and other organizations. Contributions are recorded at their fair value as unrestricted, temporarily restricted, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions, as applicable. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions where the restrictions are met in the same year as the contributions are received are reported as increases in unrestricted net assets. Contributions restricted for the purchase of long-lived assets are reported as unrestricted support when spent for that purpose.

#### Advertising and promotion costs

Advertising and promotion costs are generally recorded as expenses when the advertising first takes place. Such costs totaled \$158,703 and \$163,339 for the years ended June 30, 2018 and June 30, 2017, respectively.

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### Functional allocation of expenses

Costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Salaries and related expenses are allocated based on the actual time spent by employees on various activities. Occupancy and general expense are allocated based on the space usage by each function. Direct costs are allocated to the function that receives the incurred expense. Accordingly, certain costs have been allocated among the programs and supporting services (fundraising and management and general) benefited.

#### Fundraising costs

Fundraising costs are generally recorded as expenses when the fundraising event takes place which include costs associated with marketing, special events and grant writing. Such costs totaled \$774,334 and \$882,043 for the years ended June 30, 2018 and June 30, 2017, respectively, of which \$252,245 and \$423,705, respectively, related to special events. The balances of \$522,089 and \$458,338 at June 30, 2018 and June 30, 2017, respectively, have been reported as fundraising expense in the statement of activities.

#### Income taxes

ARF has received tax-exempt status under the Internal Revenue Code Section 501(c)(3) and under the California Revenue Code Section 23701(d). ARF recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a "more-likely-than-not" threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. As of June 30, 2018, management has determined ARF has no uncertain tax positions. ARF recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense (none in 2018 and 2017). Income tax returns for the years prior to 2014 for Federal (and 2013 for California) are no longer subject to examination by tax authorities. ARF is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status.

#### Nature of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Recent accounting pronouncements

In August 2016, FASB issued Accounting Standards Update No. 2016-14 ("ASU 2016-14"), *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 eliminates the distinction between permanent and temporary restrictions and requires not-for-profit entities to report net assets under two classes (net assets with donor restrictions and net assets without donor restrictions) instead of three classes and requires enhanced disclosures regarding management's self-imposed restrictions on resources without donor restrictions, composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources, among other changes. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ARF has not elected early adoption and accordingly the above-listed changes will be effective for the subsequent audit year.

### **Note 3. CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject ARF to concentrations of credit risk consist principally of cash and cash equivalents and investments. ARF places its cash with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. ARF has not experienced any losses in such accounts.

For the year ended June 30, 2018, one donor accounted for 10% or more of total donations (one in 2017).

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### **Note 4. DONATED GOODS AND SERVICES**

ARF relies heavily on donated goods and services to run its adoption center and thrift shop. A substantial number of unpaid volunteers have made significant contributions of time to ARF. For the years ended June 30, 2018 and June 30, 2017, volunteers donated approximately 101,224 and 100,638 hours to ARF activities, respectively. These hours included approximately 29,713 and 26,292 hours of foster care for animals, respectively. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure their value.

Contributed goods are included in the financial statements at their fair value where an objective basis of measurement is available. Such donated goods for the years ended June 30, 2018 and June 30, 2017 were reported as contributions of \$467,304 and \$606,313 respectively, with offsetting assets and expenses recorded in the corresponding categories as follows: program services \$377,941 and \$417,846, fund raising \$87,883 and \$187,809, and supporting services \$1,480 and \$658 for the years ended June 30, 2018 and June 30, 2017, respectively.

### **Note 5. INVENTORY**

	<u>2018</u>	<u>2017</u>
Donated sports memorabilia, net of allowance for write-down of \$66,479 in 2018 and \$59,582 in 2017	\$ 66,479	\$ 59,582
ARF wear garments	7,697	8,599
Miscellaneous items	<u>27,467</u>	<u>28,695</u>
	<u>\$ 101,643</u>	<u>\$ 96,876</u>

### **Note 6. JOINT COSTS**

In 2017 and 2018, ARF conducted activities that included requests for contributions as well as program component. Those activities include special events and direct mail campaigns. The costs of conducting those activities included a total of \$303,458 and \$280,104 of joint costs for the years ended June 30, 2018 and June 30, 2017, respectively, which are not specifically attributable to particular components of the activities. For the year ended June 30, 2018, total joint costs allocated to program is \$218,490 (\$225,484 in 2017) and \$84,968 (\$54,620 in 2017) was allocated to fundraising.

### **Note 7. INVESTMENTS**

ARF's investment funds are managed by a third party financial advisor. Based on the fund's time horizon, risk tolerances, performance expectations, and asset class preferences, an optimal portfolio was identified. ARF's financial advisors shall pursue a "Diversified Market Neutral Strategy". Consequently, the strategic asset allocation of the fund assets shall be as follows until ARF's board and its financial advisors elect to pursue an alternative strategy:

- Mid/Small and Large Capitalization Equity at 42%
- International equity at 18%
- Taxable bonds at 40%.

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

**Note 7. INVESTMENTS (continued)**

The funds are rebalanced at least on an annual basis to ensure that the funds are adhering to ARF's investment objectives:

- Objective #1: To obtain the highest level of return for ARF's desired level of risk in a manner prudent for a non-profit foundation.
- Objective #2: To limit risk exposure through diversification of asset classes and investment vehicles within asset classes.
- Objective #3: To establish policies based on total return rather than current income. This provides the greatest investment flexibility and therefore greatest opportunity for growth of assets.
- Objective #4: To maintain the purchasing power of the fund by achieving appropriate inflation-adjusted returns. ARF desires to maintain the level of services in relation to average cost increases. This requires establishing a spending rate of no more than 7%.
- Objective #5: Apply a smoothing rule to mitigate the effects of short-term market volatility on spending.
- Objective #6: To control the costs of administering and managing the fund.

The following schedule summarizes the net investment return for the years ended June 30, 2018 and June 30, 2017:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net unrealized gain	\$ 993,510	\$ 175,242	\$ -	\$ 1,168,752
Net realized gain	6,470	1,210	-	7,680
Dividend & interest income	609,944	69,022	-	678,966
	1,609,924	245,474	-	1,855,398
Less investment fees	(39,911)	(5,400)	-	(45,311)
Net investment return	\$ 1,570,013	\$ 240,074	\$ -	\$ 1,810,087

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net unrealized gain	\$ 1,403,862	\$ 250,342	\$ -	\$ 1,654,204
Net realized gain	67,407	19,899	-	87,306
Dividend income	472,752	66,934	-	539,686
Interest income	179	-	-	179
	1,944,200	337,175	-	2,281,375
Less investment fees	(36,067)	(5,081)	-	(41,148)
Net investment return	\$ 1,908,133	\$ 332,094	\$ -	\$ 2,240,227

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

**Note 7. INVESTMENTS (continued)**

The following tables set forth by level, the fair value hierarchy, ARF's investments at fair value as of June 30, 2018 and June 30, 2017:

Assets at Fair Value as of June 30, 2018

	Quoted Prices in Active Market (Level 1)	Cost	Unrealized Gain/(Loss)
<b>EQUITY SECURITIES:</b>			
International Fund	\$ 1,094,042	\$ 947,498	\$ 146,544
Growth Fund	706,227	619,966	86,261
Value Fund	841,688	661,130	180,558
<b>BONDS:</b>			
Core Plus Fund	2,135,812	2,182,994	(47,182)
Income	1,036,032	1,049,284	(13,252)
Admiral Shares	6,422,260	6,660,451	(238,191)
Total Return	747,028	785,111	(38,083)
<b>EXCHANGE TRADED FUNDS:</b>			
International Fund	1,724,435	1,650,964	73,471
Growth Fund	2,327,014	1,550,856	776,158
Value Fund	538,959	422,439	116,520
Stock Market	2,698,222	2,063,567	634,655
Dividend Funds	2,027,734	1,593,455	434,279
Small-Mid Portfolio	2,012,062	1,511,853	500,209
US 1000 Portfolio	799,528	621,705	177,823
Emerging Markets	320,401	324,766	(4,365)
Index Fund	2,860,190	2,250,004	610,186
<b>MONEY MARKET FUNDS</b>	1,109,960	1,109,870	90
	\$ 29,401,594	\$ 26,005,913	\$ 3,395,681

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

**Note 7. INVESTMENTS (continued)**

Assets at Fair Value as of June 30, 2017

	Quoted Prices in Active Market (Level 1)	Cost	Unrealized Gain/(Loss)
<b>EQUITY SECURITIES:</b>			
International Fund	\$ 1,015,973	\$ 903,821	\$ 112,152
Growth Fund	664,269	586,441	77,828
Value Fund	731,978	612,084	119,894
<b>BONDS:</b>			
Core Plus Fund	1,797,868	1,774,168	23,700
Income	118,954	117,050	1,904
Total Return	6,799,709	6,862,325	(62,616)
Admiral Shares	738,665	758,402	(19,737)
<b>EXCHANGE TRADED FUNDS:</b>			
International Fund	849,260	795,315	53,945
Growth Fund	1,924,951	1,531,927	393,024
Value Fund	488,966	409,389	79,577
Stock Market	2,325,355	1,928,238	397,117
Dividend Funds	1,835,852	1,567,696	268,156
Small-Mid Portfolio	1,943,041	1,618,784	324,257
US 1000 Portfolio	720,065	607,042	113,023
REIT	207,036	199,228	7,808
Emerging Markets	201,873	210,143	(8,270)
Index Fund	3,063,119	2,717,953	345,166
<b>MONEY MARKET FUNDS</b>	612,668	612,668	-
	\$ 26,039,602	\$ 23,812,674	\$ 2,226,928



# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### Note 8. ENDOWMENTS

ARF's endowment net assets consist of funds whose corpus is to remain intact and include those assets of donor-restricted funds that ARF must hold in perpetuity or for a donor-specified term. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition:

<u>June 30, 2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment	<u>\$ 1,287,341</u>	<u>\$ 421,350</u>	<u>\$ 1,612,549</u>	<u>\$ 3,321,240</u>
<u>June 30, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment	<u>\$ 1,083,283</u>	<u>\$ 385,334</u>	<u>\$ 1,612,549</u>	<u>\$ 3,081,166</u>

The Board of ARF has full authority and plenary power to manage, invest and reinvest any principal of the fund and any increase or accumulations to it and any income from it; however, the Board has a fiduciary duty to maintain the principal of the fund.

Net changes in endowment funds were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2016	\$ 891,688	\$ 244,836	\$ 1,612,549	\$ 2,749,073
Dividend income	-	66,934	-	66,934
Net realized and unrealized gains on investments	-	270,240	-	270,240
Appropriations	191,595	(191,595)	-	-
Investment fees	-	(5,081)	-	(5,081)
Balance, June 30, 2017	<u>\$ 1,083,283</u>	<u>\$ 385,334</u>	<u>\$ 1,612,549</u>	<u>\$ 3,081,166</u>
Dividend income	-	69,022	-	69,022
Net realized and unrealized gains on investments	-	176,452	-	176,452
Appropriations	204,058	(204,058)	-	-
Investment fees	-	(5,400)	-	(5,400)
Balance, June 30, 2018	<u>\$ 1,287,341</u>	<u>\$ 421,350</u>	<u>\$ 1,612,549</u>	<u>\$ 3,321,240</u>

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### **Note 8. ENDOWMENTS (continued)**

ARF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), signed into law in California in 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ARF classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. ARF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of ARF and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation and depreciation of investments, and (6) the investment policies of ARF.

In absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. Through June 30, 2017, ARF received one endowment (in 2005), of which the principal balance of \$1,612,549 is with donor restrictions. The ARF donor indicated that the use of the investment income, including net appreciation, resulting from the donor-restricted endowment funds should be used by ARF exclusively for charitable purposes for the well-being, advancement, preservation and care of small animals in California, with particular emphasis given (but not limited to) dogs and cats and also may be used (but are not limited to) veterinary care, particularly including spaying and neutering, preservation, rescue and placement.

ARF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding of programs supported by its endowment while also maintaining the purchase power of the endowment assets. In establishing this policy, ARF considered the long-term expected investment return on its endowment assets. Approved by its Board of Directors, endowment assets are invested in a manner that is intended to produce results that exceed the respective benchmark while assuming a moderate level of investment risk. Accordingly, over the long term, ARF expects its endowment assets, over time, to produce the highest level of return, net investment fees, for the desired level of risk. Actual returns in any given year may vary from this amount.

The Board of Directors established a spending rate of no more than 7% of the average annual fair value of the investment balance of the endowment funds for the prior two fiscal year ends). In establishing this policy, ARF considered the long-term expected return on its endowment assets, the nature and duration of the endowment funds, many of which must be maintained in perpetuity because of donor restrictions and possible effects of inflation. Accordingly, over the long term, ARF expects their spending policy to allow its endowment to grow at a rate exceeding expected inflation.

### **Note 9. LINE OF CREDIT**

In August 2011, ARF entered into a \$350,000 revolving line of credit with a bank, which bears interest at 0.5% over the bank's prime rate (5.00% at June 30, 2018). Effective July 17, 2017, the maturity date of the loan was extended to August 5, 2018. No amounts were outstanding in connection with the respective line of credit as of June 30, 2018 and 2017 and all loan covenants were satisfied for the periods then ended. No amounts were borrowed on these bank lines during 2018 and 2017.

### **Note 10. CONTRIBUTIONS & PLEDGES RECEIVABLE**

During the year ended June 30, 2018, ARF began actively soliciting contributions for a capital campaign to build a groundbreaking Pets for Vets Center that will serve as the national headquarters for shelter to service dog training. The goal of the Center is to pair service dogs with Veterans who are struggling to readjust to civilian life due to service related mental health conditions including post-traumatic stress disorder, traumatic brain injury, depression, and anxiety.

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

**Note 10. CONTRIBUTIONS & PLEDGES RECEIVABLE (continued)**

Contributions and pledges receivable is comprised of the following at June 30, 2018 and 2017:

	Capital Campaign	Operations	2018 Total	2017 Total
Amounts due in less than one year	\$ 177,500	\$ -	\$ 177,500	\$ 10,000
Amounts due in one to five years	217,000	-	217,000	-
	<u>394,500</u>	<u>-</u>	<u>394,500</u>	<u>10,000</u>
Present value discount (5%)	(19,785)	-	(19,785)	-
	<u>\$ 374,715</u>	<u>\$ -</u>	<u>\$ 374,715</u>	<u>\$ 10,000</u>

Contributions receivable of \$10,000 from 2017 pertains to receivables related to operations.

**Note 11. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2018 and 2017:

	2018	2017
Buildings and improvements	\$ 9,770,883	\$ 9,763,623
Land	7,264,668	7,264,668
Furniture and fixtures	707,718	657,810
Vehicles	447,541	447,541
Machinery and equipments	86,782	92,666
Website development costs	62,500	62,500
Leasehold improvements	43,730	43,730
	<u>18,383,822</u>	<u>18,332,538</u>
Less: accumulated depreciation and amortization	<u>(5,241,769)</u>	<u>(4,954,235)</u>
Property and equipment, net	<u>\$ 13,142,053</u>	<u>\$ 13,378,303</u>

Depreciation expense was \$347,954 in 2018 and \$328,982 in 2017.

**Note 12. RETIREMENT PLAN**

ARF maintains a 403(b) plan for all eligible employees. Employee salary deferrals withheld from employee payrolls are directly deposited with the plan custodian on behalf of the participants. Employees may contribute up to the annual IRS limit. Effective January 1, 2017, ARF amended the 403(b) plan to allow for employer matching contributions up to 2% of gross salaries. Employer match contributions totaled \$44,374 for the year ended June 30, 2018 (\$24,525 in 2017).

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

**Note 13. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	2018	2017
Endowment funds	\$ 421,349	\$ 385,334
Capital campaign	658,647	-
Intake vehicle	66,378	-
Spay and neuter vehicle	30,270	82,035
Hope fund	15,192	10,727
Bridges scholarship	2,765	14,620
Animal care grant	-	221,282
Dental suite	-	1,392
Emergency medical fund	-	285
	<b>\$ 1,194,601</b>	<b>\$ 715,675</b>
Total	<b>\$ 1,194,601</b>	<b>\$ 715,675</b>

**Note 14. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for the years ended June 30, 2018 and 2017 as follows:

	2018	2017
Animal care and foster care	\$ 516,890	\$ 206,151
Capital campaign	477,567	-
Military and veterans fund	235,481	480,663
Endowment funds	204,058	191,595
Disaster relief	103,315	-
Spay and neuter vehicle	101,766	114,686
Intake vehicle	83,622	-
Admin fire	50,000	-
Adoptions	41,787	41,325
Hope fund	22,270	25,176
Scholarships	21,855	7,969
Strep Zoo outbreak	7,500	-
Other	7,366	5,395
Emergency medical fund	5,847	11,293
Pet hug pack	4,250	7,352
Pet retention program	1,400	5,000
Clinic	1,280	7,695
Humane education fund	1,111	33,175
	<b>\$ 1,887,365</b>	<b>\$ 1,137,475</b>
Totals	<b>\$ 1,887,365</b>	<b>\$ 1,137,475</b>

**Note 15. CONSTRUCTION IN PROGRESS**

Construction in progress totaled \$537,322 (\$119,149 in 2017) and consisted of primarily architectural fees to draft plans as well as permits for a new Veterans building. ARF anticipates that construction will begin in 2019.

# TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

### **Note 16. COMMITMENTS AND CONTINGENCIES**

The ARF thrift store operates from the Market Street Park and Shop Center in Concord, California under an operating lease which expires on November 30, 2021. ARF is currently leasing the facility on a month to month basis. Under the terms of the lease agreement, minimum rental payments are adjusted annually using a specific formula. In no event shall the adjustment be less than 3% or greater than 5% of the prior year's rent. Monthly rent expense for the thrift store lease was \$8,201 in 2018 and \$8,016 in 2017.

ARF also has non-cancelable operating agreements for the lease of various pieces of office equipment with expiration dates between October 2019 and April 2022.

Total rent expense was \$130,917 in 2018 and \$132,603 in 2017.

ARF's future minimum lease payments under the leases are as follows:

<u>Years Ending June 30,</u>	
2019	\$ 110,510
2020	104,233
2021	100,240
2022	42,528
2023	-
	<u>\$ 357,511</u>

### **Note 17. COLLABORATIVE ARRANGEMENTS**

In October 2016, ARF entered into a collaborative arrangement with Antioch Animal Services (AAS). The goal of the arrangement is to allow ARF to partner with AAS to provide the expertise and guidance that AAS needs in terms of staffing, medical treatment (preventive and acute), implementing recommendations by veterinary professionals, managed intake and pet retention strategies, development of volunteer and foster programs, animal management and the overall adoption process. To best address some unique areas of this partnership (i.e. software usage analysis and recommendations, rescue group "summit" meeting facilitation), ARF may work with a contractor such as U.C. Davis or a professional meeting facilitator. Costs incurred for the AAS arrangement totaled \$615,988 in 2018 (\$179,778 in 2017), however these costs were fully offset by grant funding received from Maddie's Fund.

### **Note 18. CASUALTY LOSS**

In October 2017, the administrative wing at ARF suffered an electrical fire causing damages to workstations, flooring and equipment. ARF completed the insurance claim settlement for the fire. No gain was recorded since insurance proceeds equaled the net book value of assets damaged in the loss. ARF incurred \$5,064 in repairs and business interruption costs that were not covered by insurance. These costs are reported as other changes in net assets in the statement of activities.

### **Note 19. SUBSEQUENT EVENTS**

Management has evaluated subsequent events since June 30, 2018 and through October 18, 2018, the date which the financial statements were available for issue (the date of the independent auditor's report). No significant events were identified that require adjustments to or disclosures in the financial statements.