TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

(A California Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2019 AND JUNE 30, 2018

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

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SWEENEY KOVAR
ACCOUNTANTS & ADVISORS

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, 2019, 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, 2019, 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 2018 financial statements, and our report dated October 18, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sweeney Kovar LLP

Danville, California
October 17, 2019

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

STATEMENT OF FINANCIAL POSITION
As of June 30, 2019
(With summarized financial information as of June 30, 2018)

	June 30, 2019			Year Ended
ASSETS	Net Assets Without Restrictions	Net Assets With Restrictions	Total	June 30, 2018 Comparative Totals
CURRENT:				
Cash and cash equivalents	$ 51,256	$ 60,175	$ 111,431	$ 920,418
Cash restricted for capital campaign (note 8)	-	7,189,071	7,189,071	283,932
Accounts receivable, net	44,199	-	44,199	25,853
Pledges receivable (note 11)	-	863,750	863,750	177,500
Inventory, net (note 6)	100,301	-	100,301	101,643
Prepaid expenses	139,516	-	139,516	72,940
TOTAL CURRENT ASSETS	335,272	8,112,996	8,448,268	1,582,286
OTHER:				
Investments (note 8)	32,784,400	2,002,194	34,786,594	28,291,637
Pledges receivable, net (note 11)	-	1,064,993	1,064,993	197,215
Deposits	3,510	-	3,510	94,987
Construction in progress (note 15)	1,256,003	-	1,256,003	537,322
Property and equipment, net (note 12)	14,202,553	-	14,202,553	13,142,053
	$ 48,581,738	$ 11,180,183	$ 59,761,921	$ 43,845,500
LIABILITIES AND NET ASSETS				
CURRENT:				
Accounts and other payables	$ 330,648	$ -	$ 330,648	$ 380,675
Accrued expenses	274,841	-	274,841	240,008
Deferred revenue	291,467	-	291,467	268,385
TOTAL CURRENT LIABILITIES	896,956	-	896,956	889,068
NET ASSETS (note 14)	47,684,782	11,180,183	58,864,965	42,956,432
	$ 48,581,738	$ 11,180,183	$ 59,761,921	$ 43,845,500

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019
(With summarized financial information for the year ended June 30, 2018)

	Year Ended June 30, 2019			Year Ended June 30, 2018 Comparative Totals
	Net Assets Without Restrictions	Net Assets With Restrictions	Total	
OPERATING REVENUES & OTHER SUPPORT:				
Contributions	$ 7,848,655	$ 417,342	$ 8,265,997	$ 5,237,258
Special events, net of expenses of $224,735 (note 2)	1,716,897	-	1,716,897	1,159,414
Corporate sponsorship	442,700	-	442,700	438,500
Program fees	988,735	-	988,735	933,451
Retail sales	595,353	-	595,353	566,848
Other revenues	30,926	-	30,926	42,872
Net assets released from restriction (note 16)	2,694,308	(2,694,308)	-	-
TOTAL OPERATING REVENUES & OTHER SUPPORT:	14,317,574	(2,276,966)	12,040,608	8,378,343
OPERATING EXPENSES:				
Program services	7,077,941	-	7,077,941	6,959,106
Fundraising expenses (note 2)	651,751	-	651,751	522,089
Management and general	556,629	-	556,629	495,620
TOTAL OPERATING EXPENSES	8,286,321	-	8,286,321	7,976,815
CHANGE IN NET ASSETS FROM OPERATIONS	6,031,253	(2,276,966)	3,754,287	401,528
OTHER CHANGES:				
Capital campaign contributions & grants (note 11)	-	10,457,619	10,457,619	1,136,214
Capital campaign expenses	(78,168)		(78,168)	-
Casualty loss (note 19)	-	-	-	(5,064)
Net investment return including endowment funds (notes 8 and 9)	1,582,415	192,380	1,774,795	1,810,087
TOTAL OTHER CHANGES	1,504,247	10,649,999	12,154,246	2,941,237
CHANGE IN NET ASSETS	7,535,500	8,373,033	15,908,533	3,342,765
NET ASSETS, beginning of year	40,149,282	2,807,150	42,956,432	39,613,667
NET ASSETS, end of year	$ 47,684,782	$ 11,180,183	$ 58,864,965	$ 42,956,432

See notes to financial statements.

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019
(With summarized financial information for the year ended June 30, 2018)

	Year Ended June 30, 2019										
	Program Services						Support Services				
	Animal Care and Adoptions	Training	Veterinary Clinic	Humane Education	Community Outreach	Program Services	Fundraising	Management and General	Supporting Services	Total Operating Expenses	Year Ended June 30, 2018 Comparative Totals
Salaries	$ 1,491,655	$ 154,126	$ 1,125,744	$ 322,518	$ 596,121	$ 3,690,164	$ 257,322	$ 334,239	$ 591,561	$ 4,281,725	$ 3,842,868
Payroll tax	116,008	12,235	86,085	24,840	39,246	278,414	20,110	24,673	44,783	323,197	300,366
Employee benefits	203,044	10,795	131,006	23,643	61,796	430,284	34,030	36,113	70,143	500,427	475,470
Total payroll related expense	1,810,707	177,156	1,342,835	371,001	697,163	4,398,862	311,462	395,025	706,487	5,105,349	4,618,704
Occupancy expenses	182,101	43,198	167,935	29,100	9,495	431,829	13,010	16,904	29,914	461,743	533,499
Equipment rental, repairs and maintenance	43,312	13,249	44,696	8,163	11,461	120,881	14,912	19,766	34,678	155,559	243,942
Supplies	9,375	1,068	8,263	20,795	5,283	44,784	1,393	5,512	6,905	51,689	51,364
Printing and publications	117,053	13,904	108,786	16,740	60,057	316,540	118,297	4,089	122,386	438,926	385,619
Postage	4,324	1,400	7,511	653	2,723	16,611	2,889	3,124	6,013	22,624	19,666
Animal care and supplies	224,161	1,664	318,437	-	347,580	891,842	-	-	-	891,842	808,460
Conferences and education	4,520	680	5,686	6,065	2,264	19,215	3,985	2,193	6,178	25,393	27,016
Professional services	7,517	8,565	14,754	1,795	9,311	41,942	12,182	77,325	89,507	131,449	214,281
Advertising and promotion	20,200	2,018	17,770	3,597	54,269	97,854	134,227	681	134,908	232,762	158,703
Cost of goods sold	78,402	-	-	-	-	78,402	-	-	-	78,402	81,293
Travel and transportation	29,487	254	11,448	6,996	28,369	76,554	5,763	9,860	15,623	92,177	91,870
Insurance	49,814	10,943	10,975	7,565	1,924	81,221	1,849	2,827	4,676	85,897	79,592
Other expenses	47,753	6,279	24,613	7,221	32,539	118,405	23,487	2,049	25,536	143,941	313,326
Depreciation (note 12)	189,752	40,175	75,999	27,113	6,723	339,762	8,295	17,274	25,569	365,331	347,954
Bad debts	-	-	3,237	-	-	3,237	-	-	-	3,237	1,526
Total expenses	$ 2,818,478	$ 320,553	$ 2,162,945	$ 506,804	$ 1,269,161	$ 7,077,941	$ 651,751	$ 556,629	$ 1,208,380	$ 8,286,321	$ 7,976,815

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and June 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 15,908,533	$ 3,342,765
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized gain on investments	(513,323)	(1,168,752)
Gain on sale of investments	(478,117)	(7,680)
Loss on disposal of property and equipment	603	1,491
Depreciation	365,331	347,954
Provision for bad debts	710	35
Provision for inventory write-downs	(3,207)	6,897
(Increase) decrease in assets:		
Accounts receivable, net	(19,056)	14,668
Contributions receivable	-	10,000
Pledge receivable, net	(1,554,028)	(374,715)
Inventory	4,549	(11,664)
Prepaids	(66,576)	29,561
Deposits	91,477	(86,477)
Increase (decrease) in liabilities:		
Accounts payable	(50,027)	245,073
Accrued expenses	34,833	29,238
Deferred revenue	23,082	(8,642)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,744,784	2,369,752
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(8,139,603)	(2,931,809)
Proceeds from sale of investments	2,636,086	1,856,206
Property and equipment purchases	(2,145,115)	(531,368)
NET CASH USED BY INVESTING ACTIVITIES	(7,648,632)	(1,606,971)
INCREASE IN CASH AND CASH EQUIVALENTS	6,096,152	762,781
CASH AND CASH EQUIVALENTS, beginning of year	1,204,350	441,569
CASH AND CASH EQUIVALENTS, end of year	$ 7,300,502	$ 1,204,350

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2019 AND JUNE 30, 2018

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:

Without Donor Restrictions

The portion of net assets that is not subject to donor-imposed stipulations.

With Donor Restrictions

The portion of net assets whose use by ARF is limited by donor-imposed stipulations that expire by the passage of time or can be met by actions of ARF pursuant to those stipulations.

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 capital campaign purposes.

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 $2,223 for the year ended June 30, 2019 ($1,513 in 2018). 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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Investments

ARF applies ASC No. 820 and accordingly 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:

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.
Level 2	Inputs to the valuation methodology include: • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data, by correlation or other means. 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.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

Capital campaign contributions

Capital Campaign contributions are reported as increases in net assets with donor restrictions and then released to net assets without donor restriction if the restriction is met during the year. Other contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other restricted donor contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from donor restriction.

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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising and promotion costs

Advertising and promotion costs are generally recorded as expenses when the advertising first takes place. Such costs totaled $232,762 and $158,703 for the years ended June 30, 2019 and June 30, 2018, respectively.

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 $876,486 and $774,334 for the years ended June 30, 2019 and June 30, 2018, respectively, of which $224,735 and $252,245, respectively, related to special events. The balances of $651,751 and $522,089 at June 30, 2019 and June 30, 2018, 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, 2019, 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 2019 and 2018). Income tax returns for the years prior to 2015 for Federal (and 2014 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.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for ARF for fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU No. 2015-14, Deferral of Effective Date). ARF is currently assessing the impact of the new standard on its financial statements.

TONY LA RUSSA'S ANIMAL RESCUE FOUNDATION

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2019 AND JUNE 30, 2018

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Liabilities (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. The new standard impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ARF is currently assessing the impact of the new standard on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, Leases, and supersede the requirements in ASC Topic 840, Leases. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for ARF’s fiscal year 2020. ARF is currently assessing the impact of the new standard on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08). ASU 2018-08 was issued to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU are intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance; and (2) determining whether a contribution is conditional. The ASU is effective for years beginning after December 15, 2018 (ARF's 2020 fiscal year). ARF is currently assessing the impact of the new standard on its financial statements.

Note 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of June 30, 2019 are as follows:

Total assets	$ 59,761,921
Less:	
Net assets with donor restrictions	(11,180,183)
Land, building and equipment, net	(15,458,556)
Financial assets available within one year	$ 33,123,182

ARF manages its financial assets to be available as its operating expenditures, liability and other obligations come due. If necessary, the Board has the capacity to designate a portion of any operating surplus to its liquidity reserve ($-0- reserved as of June 30, 2019). To supplement working capital and investment commitments, ARF has a line of credit agreement totaling $350,000 with no outstanding borrowings as of June 30, 2019.

Note 4. 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, 2019, one donor accounted for 10% or more of total donations (one in 2018).

Note 5. 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, 2019 and June 30, 2018, volunteers donated approximately 98,862 and 101,224 hours to ARF activities, respectively. These hours included approximately 28,510 and 29,713 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, 2019 and June 30, 2018 were reported as contributions of $566,160 and $467,304 respectively, with offsetting assets and expenses recorded in the corresponding categories as follows: program services $482,584 and $377,941, fund raising $83,556 and $87,883, and supporting services $20 and $1,480 for the years ended June 30, 2019 and June 30, 2018, respectively.

Note 6. INVENTORY

	2019	2018
Donated sports memorabilia, net of allowance for write-down of $63,272 in 2019 and $66,479 in 2018	$ 63,271	$ 66,479
ARF wear garments	8,469	7,697
Miscellaneous items	28,561	27,467
	$ 100,301	$ 101,643

Note 7. JOINT COSTS

In 2018 and 2019, 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 $346,366 and $303,458 of joint costs for the years ended June 30, 2019 and June 30, 2018, respectively, which are not specifically attributable to particular components of the activities. For the year ended June 30, 2019, total joint costs allocated to program is $242,456 ($218,490 in 2018) and $103,910 ($84,968 in 2018) was allocated to fundraising.

Note 8. 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%.

Note 8. 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.

Investment balances have been presented as follows on the statement of financial position:

Cash restricted for capital campaign	$ 7,189,071
Investments	34,786,594
	$ 41,975,665

The following schedule summarizes the net investment return for the years ended June 30, 2019 and June 30, 2018:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net unrealized gain	$ 460,743	$ 52,580	$ 513,323
Net realized gain	411,918	66,199	478,117
Dividend & interest income	752,716	78,843	831,559
	1,625,377	197,622	1,822,999
Less investment fees	(42,962)	(5,242)	(48,204)
Net investment return	$ 1,582,415	$ 192,380	$ 1,774,795

	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	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

Note 8. INVESTMENTS (continued)

The following tables set forth by level, the fair value hierarchy, ARF's investments at fair value as of June 30, 2019 and June 30, 2018:

Assets at Fair Value as of June 30, 2019

	Quoted Prices in Active Market (Level 1)	Cost	Unrealized Gain/(Loss)
Money Market Funds	$ 6,865,890	$ 6,865,890	$ -
Exchange Traded Funds	19,453,473	15,779,175	3,674,298
Bond Funds	13,139,606	13,023,455	116,151
Equity Funds	2,516,696	2,396,399	120,297
	$ 41,975,665	$ 38,064,919	$ 3,910,746

Assets at Fair Value as of June 30, 2018

	Quoted Prices in Active Market (Level 1)	Cost	Unrealized Gain/(Loss)
Money Market Funds	$ 1,109,960	$ 1,109,870	$ 90
Exchange Traded Funds	15,308,545	11,989,609	3,318,936
Bond Funds	10,341,132	10,677,840	(336,708)
Equity Funds	2,641,957	2,228,594	413,363
	$ 29,401,594	$ 26,005,913	$ 3,395,681

Note 9. 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.

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.

Note 9. ENDOWMENTS (continued)

In absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. Through June 30, 2019, 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 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.

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.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires ARF to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions and generally result from unfavorable market fluctuations that occur shortly after the investment of new contributions with donor restrictions and continued appropriation for certain programs that were deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in net assets with donor restrictions. There were no aforementioned deficiencies at June 30, 2019 and 2018.

Endowment Net Asset Composition:

June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds	$ 1,511,425	$ 2,002,194	$ 3,513,619

June 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds	$ 1,287,341	$ 2,033,898	$ 3,321,239

Note 9. ENDOWMENTS (continued)

Net changes in endowment funds were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2017	$ 1,083,283	$ 1,997,882	$ 3,081,165
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	$ 1,287,341	$ 2,033,898	$ 3,321,239
Dividend income	-	78,843	78,843
Net realized and unrealized gains on investments	-	118,779	118,779
Appropriations	224,084	(224,084)	-
Investment fees	-	(5,242)	(5,242)
Balance, June 30, 2019	$ 1,511,425	$ 2,002,194	$ 3,513,619

Note 10. 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 (5.50% at June 30, 2019). Effective July 19, 2018, the maturity date of the loan was extended to August 5, 2020. No amounts were outstanding in connection with the respective line of credit as of June 30, 2019 and 2018 and all loan covenants were satisfied for the periods then ended. No amounts were borrowed on these bank lines during 2019 and 2018.

Note 11. CONTRIBUTIONS & PLEDGES RECEIVABLE

During 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. Contributions and pledges receivable is comprised of the following at June 30, 2019 and 2018:

	Capital Campaign	Operations	2019 Total	2018 Total
Amounts due in less than one year	$ 863,750	$ 4,640	$ 868,390	$ 177,500
Amounts due in one to five years	1,145,542	-	1,145,542	217,000
	2,009,292	4,640	2,013,932	394,500
Present value discount (5.5%)	(85,189)	-	(85,189)	(19,785)
	$ 1,924,103	$ 4,640	$ 1,928,743	$ 374,715

Note 12. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2019 and 2018:

	2019	2018
Buildings and improvements	$ 11,019,926	$ 9,770,883
Land	7,264,668	7,264,668
Furniture and fixtures	735,668	707,718
Vehicles	544,944	447,541
Machinery and equipments	54,118	86,782
Website development costs	62,500	62,500
Leasehold improvements	43,730	43,730
	19,725,554	18,383,822
Less: accumulated depreciation and amortization	(5,523,001)	(5,241,769)
Property and equipment, net	$ 14,202,553	$ 13,142,053

Depreciation expense was $365,331 in 2019 and $347,954 in 2018.

Note 13. 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 $46,444 for the year ended June 30, 2019 ($44,374 in 2018).

Note 14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30, 2019 and 2018:

	2019	2018
Capital campaign	$ 9,117,814	$ 658,647
Endowment funds	2,002,194	2,033,898
Humane education program	30,596	2,765
Hope fund	18,720	15,192
Pet retention program	10,000	-
Foodshare	859	-
Intake vehicle	-	66,378
Spay and neuter vehicle	-	30,270
Total	$ 11,180,183	$ 2,807,150

Note 15. CONSTRUCTION IN PROGRESS

Construction in progress totaled $1,256,003 ($537,322 in 2018) and consisted of primarily architectural fees to draft plans as well as permits for a new Veterans building. Construction for the building started in 2019.

Note 16. 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, 2019 and 2018 as follows:

	2019	2018
Capital campaign	$ 2,045,896	$ 477,567
Endowment funds	224,084	204,058
Disaster relief	140,058	103,315
Pets and Vets program	87,079	235,481
Adoptions	32,204	41,787
Spay and neuter vehicle	30,270	101,766
Clinic	30,057	1,280
Humane education fund	24,454	22,966
Hope fund	19,528	22,270
Intake vehicle	18,934	83,622
Emergency medical fund	16,385	5,847
Animal care and foster care	14,456	516,890
Other	5,690	8,766
Pet hug pack	5,213	4,250
Admin fire	-	50,000
Strep Zoo outbreak	-	7,500
Totals	$ 2,694,308	$ 1,887,365

Note 17. 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 $8,393 in 2019 and $8,201 in 2018.

ARF also has non-cancelable operating agreements for the lease of various pieces of office equipment with expiration dates between October 2019 and August 2023.

Total rent expense was $138,817 in 2019 and $108,044 in 2018.

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

Years Ending June 30,	
2020	$ 129,777
2021	126,204
2022	67,147
2023	23,660
2024	3,943
	$ 350,731

Note 18. 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, however these costs were fully offset by grant funding received from Maddie's Fund. The AAS arrangement terminated during the fiscal year ended June 30, 2018; no such arrangements were entered into for 2019.

Note 19. 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 for the year ended June 30, 2018. These costs are reported as other changes in net assets in the statement of activities. No such casualty losses were incurred for the year ended June 30, 2019.

Note 20. SUBSEQUENT EVENTS

Management has evaluated subsequent events since June 30, 2019 and through October 17, 2019, 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.