

**LOS ANGELES SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

Financial Statements

Year ended August 31, 2021

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

FINANCIAL STATEMENTS

Year ended August 31, 2021

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	7
Notes to Financial Statements	8

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Los Angeles Society for the Prevention of Cruelty to Animals
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying statement of financial position of Los Angeles Society for the Prevention of Cruelty to Animals (spcaLA), as of August 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended and 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 spcaLA as of August 31, 2021 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Los Angeles Society for the Prevention of Cruelty to Animals' 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 27, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

June 20, 2022
Irvine, California

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Financial Position

August 31, 2021

(with comparative information for 2020)

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 2)	\$ 7,860,146	5,464,369
Accounts receivable	219,809	141,987
Inventory	172,156	140,701
Interest receivable	37,934	-
Prepaid expenses	106,688	48,097
TOTAL CURRENT ASSETS	<u>8,396,733</u>	<u>5,795,154</u>
NON-CURRENT ASSETS		
Restricted cash (note 2)	178,582	178,582
Investments (note 2)	41,524,466	31,325,786
Deposits	1,750	1,750
Property and equipment, net (note 3)	6,961,584	7,274,361
TOTAL NON-CURRENT ASSETS	<u>48,666,382</u>	<u>38,780,479</u>
TOTAL ASSETS	<u>\$ 57,063,115</u>	<u>44,575,633</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 438,309	68,891
Accrued liabilities	258,831	308,730
Current portion of long-term debt (note 4)	228,458	569,444
TOTAL CURRENT LIABILITIES	<u>925,598</u>	<u>947,065</u>
NONCURRENT LIABILITIES		
Long-term debt (note 4)	6,914,532	6,655,556
TOTAL NONCURRENT LIABILITIES	<u>6,914,532</u>	<u>6,655,556</u>
TOTAL LIABILITIES	<u>7,840,130</u>	<u>7,602,621</u>
NET ASSETS (note 9)		
Without donor restrictions	48,501,567	36,259,224
With donor restrictions	721,418	713,788
TOTAL NET ASSETS	<u>49,222,985</u>	<u>36,973,012</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 57,063,115</u>	<u>44,575,633</u>

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Activities

**Year ended August 31, 2021
(with comparative information for 2020)**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
PROGRAM REVENUES				
Animal shelter contracts	\$ 491,410	-	491,410	708,593
Other adoption center charges	262,373	-	262,373	163,885
Animal placement fee	74,850	-	74,850	195,718
Animal protection services	32,096	-	32,096	2,735
Merchandise sales, net of costs	127,335	-	127,335	86,183
Other shelter charges	33,251	-	33,251	256,783
TOTAL PROGRAM REVENUES	<u>1,021,315</u>	<u>-</u>	<u>1,021,315</u>	<u>1,413,897</u>
PUBLIC SUPPORT				
Contributions	4,995,000	7,630	5,002,630	2,972,971
Bequests	6,986,530	-	6,986,530	4,444,848
Special events, net	57,656	-	57,656	120,680
TOTAL PUBLIC SUPPORT	<u>12,039,186</u>	<u>7,630</u>	<u>12,046,816</u>	<u>7,538,499</u>
Investment income (loss) (note 2)	6,826,376	-	6,826,376	2,979,874
Net assets released from restrictions (note 10)	-	-	-	-
TOTAL REVENUE	<u>19,886,877</u>	<u>7,630</u>	<u>19,894,507</u>	<u>11,932,270</u>
PROGRAM SERVICES				
Companion animal services	3,761,480	-	3,761,480	4,468,983
Animal protection services	846,186	-	846,186	873,900
Education and outreach	831,157	-	831,157	933,905
Volunteer programs	12,385	-	12,385	75,099
TOTAL PROGRAM SERVICES	<u>5,451,208</u>	<u>-</u>	<u>5,451,208</u>	<u>6,351,887</u>
SUPPORTING SERVICES				
Management and general	1,205,622	-	1,205,622	863,834
Fundraising	987,704	-	987,704	910,528
TOTAL SUPPORT SERVICES	<u>2,193,326</u>	<u>-</u>	<u>2,193,326</u>	<u>1,774,362</u>
TOTAL EXPENSES	<u>7,644,534</u>	<u>-</u>	<u>7,644,534</u>	<u>8,126,249</u>
 Increase (decrease) in net assets	 12,242,343	 7,630	 12,249,973	 3,806,021
NET ASSETS, BEGINNING OF YEAR	<u>36,259,224</u>	<u>713,788</u>	<u>36,973,012</u>	<u>33,166,991</u>
NET ASSETS, END OF YEAR	<u>\$ 48,501,567</u>	<u>721,418</u>	<u>49,222,985</u>	<u>36,973,012</u>

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses

**Year ended August 31, 2021
(with comparative information for 2020)**

	Program Services				
	Companion Animal Services	Animal Protection Services	Education and Outreach	Volunteer Programs	Subtotal
Salaries and benefits	\$ 2,241,798	627,319	589,228	71	3,458,416
Contract services	211,648	61,471	34,723	-	307,842
Supplies	267,692	4,257	5,556	1,432	278,937
Telecommunications	100,708	37,182	25,169	1,965	165,024
Postage and shipping	788	150	2,698	14	3,650
Printing	4,513	2,686	14,901	367	22,467
Rent and occupancy expenses	369,554	42,144	47,896	4,579	464,173
Equipment rental and maintenance	57,906	17,686	43,600	605	119,797
Depreciation	300,631	18,495	12,926	517	332,569
Travel costs	1,407	2,404	3,711	-	7,522
Conferences, conventions, meetings	1,477	25	257	-	1,759
Advertising	1,689	-	28,297	-	29,986
Other expenses	201,669	32,367	22,195	2,835	259,066
TOTAL EXPENSES	\$ 3,761,480	846,186	831,157	12,385	5,451,208

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses

(Continued)

	<u>Supporting Services</u>				
	General and			Totals	
	Administrative	Fundraising	Subtotal	2021	2020
Salaries and benefits	755,113	289,603	1,044,716	4,503,132	5,416,553
Contract services	225,618	24,999	250,617	558,459	346,687
Supplies	12,090	5,884	17,974	296,911	319,089
Telecommunications	38,964	6,769	45,733	210,757	179,430
Postage and shipping	477	118,137	118,614	122,264	242,754
Printing	7,231	436,311	443,542	466,009	292,985
Rent and occupancy expenses	46,808	25,333	72,141	536,314	337,704
Equipment rental and maintenance	61,966	40,808	102,774	222,571	200,150
Depreciation	22,436	1,449	23,885	356,454	364,070
Travel costs	2,886	-	2,886	10,408	19,221
Conferences, conventions, meetings	-	-	-	1,759	5,583
Advertising	-	1,213	1,213	31,199	31,341
Other expenses	32,033	37,198	69,231	328,297	370,682
	<u>1,205,622</u>	<u>987,704</u>	<u>2,193,326</u>	<u>7,644,534</u>	<u>8,126,249</u>

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

**Year ended August 31, 2021
(with comparative information for 2020)**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 12,249,973	3,806,021
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	356,454	364,070
Forgiveness of PPP loan	(1,025,000)	-
Realized and unrealized (gain) loss on investments	(6,238,030)	(2,328,273)
Net realized loss (gain) on disposition of fixed assets	17,918	32,265
Donated investments	(7,994)	(7,710)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(77,822)	56,752
(Increase) decrease in inventory	(31,455)	10,921
(Increase) decrease in interest receivable	(37,934)	-
(Increase) decrease in prepaid expenses	(58,591)	(6,929)
Increase (decrease) in accounts payable	369,418	(43,226)
Increase (decrease) in accrued liabilities	<u>(49,899)</u>	<u>61,160</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>5,467,038</u>	<u>1,945,051</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales or maturities of investments	6,801,692	10,446,165
Purchase of investments	(10,754,348)	(11,039,122)
Purchase of property and equipment	<u>(61,595)</u>	<u>(65,406)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(4,014,251)</u>	<u>(658,363)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan	<u>942,990</u>	<u>1,025,000</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>942,990</u>	<u>1,025,000</u>
Net increase (decrease) in cash and cash equivalents	2,395,777	2,311,688
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,642,951</u>	<u>3,331,263</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,038,728</u>	<u>5,642,951</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 74,669</u>	<u>135,847</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Donated stock	\$ 7,994	7,710
Forgiveness of PPP loan	1,025,000	-

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) **Nature of Business and Significant Accounting Policies**

(a) **Nature of Business**

The Los Angeles Society for the Prevention of Cruelty to Animals (spcaLA) is Los Angeles County's preeminent animal welfare organization. Founded on November 16, 1877, spcaLA was the fourth SPCA in the United States and the first organization to promote animal welfare in Southern California. The mission of the Organization is to prevent cruelty to animals through education, law enforcement, intervention and advocacy. Essentially, teaching empathy and respect will break the cycle of violence between animals and humans as well as between humans and humans which will benefit us all. Today, the 143-year old nonprofit stands as a premier ombudsman agency for humane values in Los Angeles County. As an independently chartered organization, it is not affiliated with any other SPCA or humane society. The majority of financial support for the spcaLA is provided by private donations from individuals, corporations, and foundations.

spcaLA operates four major programs which are described below:

I. Companion Animal Services

Animal Shelter Services provide shelter, veterinary care, rehabilitation and socialization for homeless and abused animals.

Adoption Centers provide a dynamic, community-based outlet for placing adoptable animals in homes throughout Los Angeles County. spcaLA tries to match the right animal with compatible parents. The result is a range of 88-93 percent adoption rate with very few returns.

Behavior, Training and Agility Classes increase the ability to effectively communicate with one's pet, enhancing the human animal bond and serving to solidify adoptions by reducing frustration and promoting meaningful interaction and a common vocabulary.

Re-homing Estate Animals spcaLA understands the need to provide for one's pet through an estate plan. Additionally, the organization offers to take the pets and re-home them pursuant to program guidelines thereby offering peace of mind to the donors.

Donated Food Distribution Program spcaLA receives large quantities of animal food from assorted vendors. The Organization then offers qualified not-for-profit organizations the opportunity to take as much food as they need to feed their animal charges.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) Nature of Business and Significant Accounting Policies (Continued)

II. Animal Protection Services

Investigation Program spcaLA investigates animal cruelty cases throughout California and prosecutes individuals and organizations who neglect or abuse animals.

Disaster Animal Response Team (DART) rescues and provides temporary shelter for animals and front-line veterinary care during emergencies and disasters both local and national.

Animal Safety Net provides an undisclosed safe haven for pets of battered individuals who fear leaving their pets behind where they are vulnerable to harm by a violent partner.

III. Education and Outreach

Humane Education Programs teach children and adults the proper care and respect of animals through visits to schools, libraries, clubs, and similar organizations. spcaLA's designed curricula prepare teachers to infuse regular lessons with these values.

Friends for Life Summer Camp provides children (ages 8-13) with all the fun of summer camp while teaching them respect and compassion for all living things. Campers enjoy hands-on dog training – an activity that makes shelter dogs more adoptable – as well as puppy and kitten handling, rat maze construction, skit production and much more. Guest speakers, like our Humane Officers, and excursions to the Santa Ana Zoo and the El Dorado Zoo are also on the menu for our campers. Older children have the option of viewing a neuter surgery or dental cleaning at Rossmoor VCA Veterinary Hospital. After all the fun and games, children leave *Friends for Life Summer Camp* with a better understanding of their role in making this a more humane world. Always popular, with sessions filling in a matter of days, spcaLA has expanded the camp every year since its inception.

Violence Prevention Programs promote awareness of animal abuse as a clearly established predictor of violence toward people. spcaLA's internationally renowned Teaching Love and Compassion (TLC) program guides youth from at-risk communities in training programs in anger management, conflict resolution, and attitudes of respect and responsibility.

This program made its international debut in England and is now offered in Canada and Australia as well. A modified version of the program is conducted at locations where youth are incarcerated.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) Nature of Business and Significant Accounting Policies (Continued)

IV. Volunteer Programs

Foster Animal Volunteers provide intensive individualized care for sick, injured, or abused animals, including newborn kittens and puppies in need of bottle feeding.

Helping Enhance Animals Lives (HEAL) volunteers are trained to socialize the dogs in the Pet Adoption Centers. They also help stimulate the dogs mentally to alleviate stress brought on by boredom. To increase the dogs' chances for successful, long-term adoptions, volunteers also train the dogs to have good manners and to possess basic obedience skills.

Cat Care Assistant volunteers help ensure the well-being of cats through socialization (petting, holding, playing) and grooming (brushing), as well as assisting the public by providing information about available cats and cat care.

Grooming Group volunteers help make spcaLA pets both more adoptable and comfortable by providing basic grooming services on an ongoing basis.

Isolation Puppy/Dog Socialization (IP/DSP) volunteers help to ensure animals placed in isolation (normally while they recover from illness or injury) remain socialized and connected with people, so they will be more adoptable when they recover.

Laundry volunteers wash, dry, and fold blankets and towels used for the comfort of animals in the pet adoption centers and foster homes.

Shelter Support volunteers help staff in the Pet Adoption Centers to feed animals, clean dens and catteries, and other tasks as assigned.

Humane Education volunteers give presentations at schools, civic organizations and clubs on proper pet care, the importance of spaying and neutering and spcaLA's violence prevention programs.

Marketplace Assistance volunteers assist with merchandise and customer service at the spcaLA Marketplace in Long Beach.

Fundraising volunteers work with the Fund Development Department on programs and special events to raise money to support our efforts for the animals.

spcaLA Street Team volunteers reach the "consumer" directly by distributing flyers, hanging posters, sending emails, telling friends and the like.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) **Nature of Business and Significant Accounting Policies (Continued)**

Special Projects volunteers help on short-term assignments such as research projects, clerical assistance, graphic design and the like.

Web Pet Photographer volunteers take photos each week and prepare them for posting on spcaLA's website and for "pet of the week" newspaper profiles.

Office Support volunteers help various spcaLA administrative departments with tasks such as filing, gift acknowledgements, mailings, data entry and the like.

Special Event/Outreach volunteers help to staff spcaLA booths and tables at various events to raise public awareness of our programs and services.

(b) **Basis of Accounting**

The financial statements of spcaLA have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) **Financial Statement Presentation**

spcaLA follows the financial statement presentation recommended by the Financial Accounting Standards Board (FASB) in its Auditing Standards Codification (ASC) 958-205, Presentation of Financial Statements. Under the ASC 958-205, spcaLA is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

(d) **Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents are defined by the characteristics described in this paragraph. Cash not only includes currency on hand, but demand deposits with banks as well as other types of accounts that have general characteristics of demand deposits in that the organization may deposit additional funds at any time and also may withdraw funds at any time without prior notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash, or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of three months or less.

(e) **Investments**

Investments of spcaLA include various equity securities, U.S. Treasury securities, federal agency securities, corporate bonds and notes, other fixed income securities, and money market funds.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) **Nature of Business and Significant Accounting Policies (Continued)**

Fair Value Measurements - spcaLA reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, spcaLA reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require spcaLA to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.

Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes principal expedient investments with notice periods for redemption of more than 90 days.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) **Nature of Business and Significant Accounting Policies (Continued)**

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

(f) **Inventory**

Inventories consist of items for sale and supplies for adoption centers and stores, which are valued on an average-cost basis.

(g) **Property and Equipment**

Donated property and equipment are recorded as support at their estimated fair value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, spcaLA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. spcaLA reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment acquired with costs greater than \$500 are capitalized and depreciated using the straight-line method. The useful lives assigned are as follows:

Buildings and improvements	3-53 years
Furniture, fixtures, equipment	3-15 years
Automobiles and trucks	3-10 years

(h) **Restricted and Unrestricted Revenue and Support**

The spcaLA follows ASC 958-605, Revenue Recognition. In accordance with ASC 958-605, contributions received are recorded as net assets without donor restrictions and net assets with donor restrictions support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) **Nature of Business and Significant Accounting Policies (Continued)**

All support that is restricted by the donor is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

(i) **Donated Materials and Services**

Donated materials and other noncash contributions are reflected in the accompanying statements at their estimated market values at the date of donation. The value of donated materials received in 2021 was \$94,225. In 2021, volunteers donated a total of 16,539 hours providing non-specialized services for spcaLA's many animal welfare programs, assisting with fund-raising events, and serving as officers and directors. Contributions of service are recognized if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value. The volunteer services of spcaLA do not meet the criteria and are not recognized in the financial statements.

(j) **Income Taxes**

spcaLA is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Income from certain activities not directly related to spcaLA's tax-exempt purpose is subject to taxation as unrelated business income.

ASC Topic 740, Income Taxes, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax positions exist for spcaLA at August 31, 2021.

(k) **Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) **Nature of Business and Significant Accounting Policies (Continued)**

(l) **Accrued Liabilities**

Liabilities are recorded as accrued liabilities for unpaid vacation and sick time since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement. Employees earn between 5 to 20 days beginning with one year of service up to a maximum of six weeks. A liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. Employees earn paid sick leave at a rate of 7 days per year up to 20 days. At the time of separation, 50% of unused sick leave earned will be paid out to the employee regardless of the reason for termination. Therefore, only 50% of unused sick leave is recorded in the financial statements. As of August 31, 2021, \$254,041 has been recorded as accrued liabilities for unpaid vacation and sick time.

(m) **Endowments**

spcaLA's endowment consists of funds established for donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of spcaLA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, spcaLA 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. The remaining portion of the donor-restricted funds that are not classified in net assets with donor restriction are classified as net assets without donor restriction until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, spcaLA considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of spcaLA, and (7) spcaLA's investment policies.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) **Nature of Business and Significant Accounting Policies (Continued)**

(n) **Investment Return Objectives, Risk Parameters and Strategies**

spcaLA has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to preserve the gift. Endowment funds are held in the spcaLA savings account and classified as restricted cash in the Statement of Financial Position. See also note 2.

(o) **Advertising Costs**

Advertising costs are expensed as incurred by spcaLA. Total advertising costs for the year ended August 31, 2021, were \$31,199.

(p) **Net Assets**

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

The organization's unspent contributions are included in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(1) Nature of Business and Significant Accounting Policies (Continued)

(q) Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

(r) Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

The organization is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid, and the organization has an irrevocable right to the bequest.

(s) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(1) Nature of Business and Significant Accounting Policies (Continued)

This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with spcaLA's prior year financial statements, from which this selected financial data was derived.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(2) Cash, Cash Equivalents and Investments

Cash and investments held by spcaLA consist of the following at August 31, 2021:

Cash and cash equivalents	\$ 7,860,146
Restricted cash	178,582
Investments	<u>41,524,466</u>
Total cash and investments	<u>\$ 49,563,194</u>

At August 31, 2021, spcaLA had funds in excess of federally insured limits in the amount of \$7,856,910.

The fair value of investments at August 31, 2021 is:

Equity securities	\$ 26,553,969
Federal agency securities	10,648,399
Corporate bonds and notes	4,293,303
Alternative investments	<u>28,795</u>
Total investments	<u>\$ 41,524,466</u>

Investment income consists of the following for the year ended August 31, 2021:

Interest and dividend income	\$ 708,070
Net realized gain (loss)	2,253,438
Net unrealized gain (loss)	3,984,592
Less: management fees	<u>(119,724)</u>
Investment income (loss), net	<u>\$ 6,826,376</u>

At August 31, 2021, the fair values of investments based on the fair value hierarchy defined in note 1 are as follows:

	Fair value	Level 1	Level 2	Level 3
Equity Securities and funds:				
U.S. markets	\$ 23,073,113	23,073,113	-	-
Developed international	2,344,342	2,344,342	-	-
Emerging markets	937,688	937,688	-	-
Other	198,826	198,826	-	-
Federal agency securities	10,648,399	10,648,399	-	-
Corporate bonds and notes	4,293,303	4,293,303	-	-
Alternative investments	<u>28,795</u>	<u>-</u>	<u>-</u>	<u>28,795</u>
Total	<u>\$ 41,524,466</u>	<u>41,495,671</u>	<u>-</u>	<u>28,795</u>

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(2) Cash, Cash Equivalents and Investments (Continued)

The table below presents information about recurring fair value measurements that use significant unobservable inputs (Level 3 measurements):

	Private Equity Fund
Fair value at the beginning of the year	\$ 45,033
Disbursements	(21,801)
Change in fair value	<u>5,563</u>
Fair value at the end of the year	<u>\$ 28,795</u>

The table below presents information about unfunded commitments and redemption frequency for alternative investments:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Private Equity Fund	\$28,795	-	Ineligible	Not applicable

Private Equity Funds

spcaLA invests in a private equity fund that seeks capital appreciation by making equity and equity-related investments in conjunction with privately negotiated transactions. Redemptions are not permitted during the life of the fund. When the assets are sold, the proceeds, less any incentives due to the fund sponsor, will be distributed to the investors. The fair value is based on the net asset value practical expedient but is reported as level 3 as a result of the redemption restrictions.

(3) Property and Equipment

Property and equipment consist of the following at August 31, 2021:

Land and improvements	\$ 1,033,615
Construction in progress	2,358
Buildings and improvements	11,756,212
Furniture, fixtures, and equipment	805,878
Automobiles and trucks	<u>467,668</u>
	14,065,731
Accumulated depreciation	<u>(7,104,147)</u>
Total	<u>\$ 6,961,584</u>
Depreciation expense	<u>\$ 356,454</u>

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(4) Long-Term Debt

2002 Variable Rate Demand Revenue Bonds Series A

In July of 2002, spcaLA sold \$6,200,000 of 2002 Revenue Bonds Series A. The proceeds were used to finance the acquisition, construction, installation, and equipping of various facilities.

The bonds mature in July 1, 2033. Only interest payments are due prior to the maturity date. At August 31, 2021, the variable interest rate was 0.65. spcaLA may elect to convert the interest payable on the bonds to a fixed rate of interest. As of August 31, 2021, spcaLA has not made such an election. On any business day, while interest on the bonds is payable at the variable rate, any bonds will be purchased upon demand by the owner at a purchase price equal to 100% of the principal amount of the bonds plus accrued interest.

As additional security for the 2002 Variable Rate Demand Revenue Bonds Series A, spcaLA has been authorized to receive funds under a letter of credit with a bank. The letter of credit will permit spcaLA to draw certain amounts equal to the principal and up to 45 days of interest calculated at the rate of 12% per annum, on the basis of a 365-day year. The letter of credit will be used by the Trustee for interest and/or principal payments. As of August 31, 2021, there were no outstanding draws against the letter of credit. As of August 31, 2021, \$6,200,000 of the bonds were outstanding.

The annual requirement to amortize outstanding long-term debt (for which minimum annual debt service requirements have been established) of spcaLA as of August 31, 2021, for the 2002 Variable Rate Demand Revenue Bonds Series A is as follows:

<u>Year Ended</u> <u>August 31</u>	<u>Series A*</u>
2022	\$ 39,680
2023	39,680
2024	39,680
2025	39,690
2026	39,680
Thereafter	<u>7,241,600</u>
Total payments	7,440,000
Less interest	<u>(1,240,000)</u>
Total principal outstanding	<u>\$ 6,200,000</u>

* For determining the debt service requirement for the Revenue Bonds, 0.65% variable rate is used throughout the life of the issue, which is equal to the interest rate on the debt at August 31, 2021.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(4) Long-Term Debt (Continued)

Paycheck Protection Program Loans

On April 17, 2020, spcaLA received a loan through the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) in the amount of \$1,025,000. On February 24, 2021, the loan received full forgiveness by the SBA and the loan was forgiven in full.

On April 19, 2021, spcaLA received a loan through the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) in the amount of \$942,990. Principal and interest payments are due monthly beginning on the second month after the date on which the amount of forgiveness is determined under the CARES ACT and the Economic Aid Act. However, principal and interest payments will be deferred until the amount of the forgiveness determined under the CARES ACT and the Economic Aid Act is remitted to the lender. Interest will accrue at 1% during this period. spcaLA intends to use the proceeds for purposes consistent with the PPP. spcaLA currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

The annual requirement to amortize outstanding loan based on the original payment schedule is as follows:

Year ending August 31	Principal	Interest	Total
2022	\$ 188,598	15,717	204,315
2023	188,598	15,717	204,315
2024	188,598	15,717	204,315
2025	188,598	15,717	204,315
2026	188,598	15,717	204,315
Total	<u>\$ 942,990</u>	<u>78,583</u>	<u>1,021,573</u>

(5) City of Long Beach Lease Agreement

In a lease agreement dated August 1, 1998, the City of Long Beach agreed to lease land to spcaLA beginning August 1, 1998, through July 31, 2053. Annual rent of \$120 is payable in advance on the anniversary date of each lease year. Concurrently, spcaLA agreed to lease a portion of the Project to the City to be used solely by the City's Department of Health and Human Services in connection with its animal control program. The term of the lease is August 1, 1998, through May 31, 2053. Annual rent of \$60 is payable in advance on the anniversary date of each lease year.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(6) Operating Lease Commitment

spcaLA has 2 operating leases for trucks used to transport materials, supplies, and pets. The lease terms are for 6 years with a fixed monthly rate of \$1,726 and 7 years with a fixed monthly rate of \$1,017.

Future minimum rental commitments under the above leases are as follows:

<u>Year ending August 31</u>	<u>Amount</u>
2022	\$ 19,108
2023	12,204
2024	12,204
2025	12,204
2026	5,085
Total	<u>\$ 60,805</u>

Expenses incurred under the leases totaled \$33,405 for the fiscal year ended August 31, 2021.

(7) 401(k) Plan

spcaLA has implemented a 401(k) Plan (Plan) covering substantially all their employees. The Plan is a defined-contribution plan covering all employees of spcaLA who have a minimum of six months service and are age 18 or older. Employees may also contribute the "catch up" contribution of \$6,500 as allowed by law. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Employer contributions are based on a percentage of covered employees' salaries. Employer contributions for 2021 were \$156,885. Employees are eligible to withhold up to 100% of their compensation plus up to 100% of any employer paid cash bonus, not to exceed \$19,500, to deposit in the Plan fund.

(8) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31, 2021, are as follows:

Financial assets:	
Cash and cash equivalents	\$ 7,860,146
Accounts receivable, net	219,809
Interest receivable	37,934
Restricted cash	178,582
Investments	<u>41,524,466</u>
Total financial assets	<u>49,820,937</u>

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(8) Liquidity and Availability (Continued)

Less financial assets held to meet donor-imposed restrictions:

Purpose restricted net assets	(542,806)
Time restricted net assets	(30)
Donor-restricted endowment	(178,582)

Less financial assets not available within one year:

Long-term investments	<u>(4,006,159)</u>
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Amount available for general expenditures within one year

\$ 45,100,990

The above table reflects long-term investments and endowment funds as unavailable because it is the organization's intention to invest those resources for the long-term support of the organization. However, in the case of need, the Board of Directors could appropriate resources from long-term investments for general use. Note (1)(m) provides more information about spending policies for the donor-restricted endowment funds.

As part of the liquidity management plan, the organization invests cash in excess of daily requirements in investments.

(9) Net Assets

Net assets without donor restrictions consisted of the following at August 31, 2021:

Invested in spcaLA property and equipment, net of related debt	\$ 761,584
Undesignated, available for operations	<u>47,747,613</u>
Total net assets without donor restrictions	<u>\$ 48,509,197</u>

Net assets with donor restrictions consisted of the following at August 31, 2021:

Purpose restrictions available for spending:	
Companion animal services	476,233
Education and outreach	64,990
Animal protective services	<u>1,583</u>
Total purpose restricted net assets	<u>542,806</u>
Time restrictions:	
Pledges receivable, which are unavailable for spending until due, some of which are also purpose restricted	<u>30</u>
Total time restricted net assets	<u>30</u>

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements

Year ended August 31, 2021

(9) Net Assets (Continued)

Endowment funds, which must be appropriated by the Board of Directors before use:

spcaLA's endowment account	178,582
Total endowment funds	<u>178,582</u>

Total net assets with donor restrictions	<u>\$ 721,418</u>
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(10) Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic and the California Governor declared a State of Emergency. During the COVID-19 pandemic, certain spcaLA program services and operations were interrupted, and alternative methods of operations had to be developed to meet the challenge. As the situation continues to evolve, spcaLA is closely monitoring the impact of the COVID-19 pandemic on all aspects of operations, including how it impacts its donors, employees, and ability to provide services.

(11) Subsequent Events

Subsequent events have been evaluated by management through June 20, 2022 which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.