



REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

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

August 31, 2022  
(with Summarized Comparative Information for August 31, 2021)

## Table of Contents

---

	PAGE
<b>Report of Independent Auditors</b>	1–2
<b>Financial Statements</b>	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5–6
Statement of cash flows	7
Notes to financial statements	8–23

## **Report of Independent Auditors**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Los Angeles Society for the Prevention of Cruelty to Animals, which comprise the statement of financial position as of August 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Los Angeles Society for the Prevention of Cruelty to Animals as of August 31, 2022, 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.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Los Angeles Society for the Prevention of Cruelty to Animals and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Other Matters – Prior Year Financial Statements and Summarized Comparative Information***

The financial statements of Los Angeles Society for the Prevention of Cruelty to Animals as of and for the year ended August 31, 2021, were audited by another auditor, who expressed an unmodified opinion on those statements dated June 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Los Angeles Society for the Prevention of Cruelty to Animals' ability to continue as a going concern within one year after the date that the financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Los Angeles Society for the Prevention of Cruelty to Animals' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Los Angeles Society for the Prevention of Cruelty to Animals' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Los Angeles, California  
September 5, 2023

**Los Angeles Society for the Prevention of Cruelty to Animals**  
**Statement of Financial Position (with Comparative Information for 2021)**

		ASSETS	
		August 31,	
		2022	2021
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (Note 2)	\$	5,449,937	\$ 7,860,146
Accounts receivable		123,046	219,809
Inventory		307,233	172,156
Interest receivable		37,934	37,934
Prepaid expenses		79,645	106,688
Total current assets		5,997,795	8,396,733
<b>NON-CURRENT ASSETS</b>			
Restricted cash (Note 2)		178,582	178,582
Investments (Note 2)		40,089,800	41,524,466
Deposits		1,750	1,750
Property and equipment, net (Note 3)		6,735,775	6,961,584
Total non-current assets		47,005,907	48,666,382
Total assets	\$	53,003,702	\$ 57,063,115
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$	439,699	\$ 438,309
Accrued liabilities		514,120	258,831
Current portion of long-term debt (Note 4)		-	228,458
Total current liabilities		953,819	925,598
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt (Note 4)		6,200,000	6,914,532
Total non-current liabilities		6,200,000	6,914,532
Total liabilities		7,153,819	7,840,130
<b>NET ASSETS (NOTE 9)</b>			
Without donor restrictions		45,123,430	48,501,567
With donor restrictions		726,453	721,418
Total net assets		45,849,883	49,222,985
Total liabilities and net assets	\$	53,003,702	\$ 57,063,115

# Los Angeles Society for the Prevention of Cruelty to Animals

## Statement of Activities (with Comparative Information for 2021)

	Without Donor Restrictions	With Donor Restrictions	Years Ended August 31,	
			2022	2021
<b>PROGRAM REVENUES</b>				
Animal shelter contracts	\$ 536,030	\$ -	\$ 536,030	\$ 491,410
Other adoption center charges	330,653	-	330,653	262,373
Animal placement fee	136,695	-	136,695	74,850
Animal protection services	1,162	-	1,162	32,096
Merchandise sales, net of costs	195,610	-	195,610	127,335
Other shelter charges	100,612	-	100,612	33,251
Total program revenues	1,300,762	-	1,300,762	1,021,315
<b>PUBLIC SUPPORT</b>				
Contributions	3,899,492	5,035	3,904,527	5,002,630
Bequests	3,907,080	-	3,907,080	6,986,530
Special events, net	38,030	-	38,030	57,656
Total public support	7,844,602	5,035	7,849,637	12,046,816
Investment (loss) income (Note 2)	(4,583,863)	-	(4,583,863)	6,826,376
Net assets released from restrictions	-	-	-	-
Total revenue	4,561,501	5,035	4,566,536	19,894,507
<b>PROGRAM SERVICES</b>				
Companion animal services	4,121,448	-	4,121,448	3,761,480
Animal protection services	888,215	-	888,215	846,186
Education and outreach	931,443	-	931,443	831,157
Volunteer programs	12,647	-	12,647	12,385
Total program services	5,953,753	-	5,953,753	5,451,208
<b>SUPPORTING SERVICES</b>				
Management and general	1,169,731	-	1,169,731	1,205,622
Fundraising	816,154	-	816,154	987,704
Total support services	1,985,885	-	1,985,885	2,193,326
Total expenses	7,939,638	-	7,939,638	7,644,534
(Decrease) increase in net assets	(3,378,137)	5,035	(3,373,102)	12,249,973
NET ASSETS, beginning of year	48,501,567	721,418	49,222,985	36,973,012
NET ASSETS, end of year	\$ 45,123,430	\$ 726,453	\$ 45,849,883	\$ 49,222,985

**Los Angeles Society for the Prevention of Cruelty to Animals**  
**Statement of Functional Expenses (with Comparative Information for 2021)**

	Program Services				
	Companion Animal Services	Animal Protection Services	Education and Outreach	Volunteer Programs	Subtotal
Salaries and benefits	\$ 2,573,293	\$ 760,465	\$ 676,422	\$ 129	\$ 4,010,309
Contract services	219,239	27,909	28,916	-	276,064
Supplies	410,619	6,252	16,303	877	434,051
Telecommunications	60,735	28,016	12,318	1,948	103,017
Postage and shipping	2,044	35	1,959	-	4,038
Printing	12,753	3,202	18,682	1,408	36,045
Rent and occupancy expenses	252,625	20,382	59,583	1,487	334,077
Equipment rental and maintenance	86,238	21,329	70,193	5,471	183,231
Depreciation	294,993	16,538	9,776	1,191	322,498
Travel costs	969	2,468	1,219	-	4,656
Conferences, conventions, meetings	3,009	-	161	-	3,170
Advertising	3,227	-	31,612	-	34,839
Other expenses	201,704	1,619	4,299	136	207,758
Total expenses	<u>\$ 4,121,448</u>	<u>\$ 888,215</u>	<u>\$ 931,443</u>	<u>\$ 12,647</u>	<u>\$ 5,953,753</u>

**Los Angeles Society for the Prevention of Cruelty to Animals**  
**Statement of Functional Expenses (with Comparative Information for 2021)**  
**(Continued)**

	Supporting Services				
	General and		Subtotal	Totals	
	Administrative	Fundraising		2022	2021
Salaries and benefits	\$ 397,938	\$ 93,933	\$ 491,871	\$ 4,502,180	\$ 4,503,132
Contract services	298,846	25,663	324,509	600,573	558,459
Supplies	18,470	6,032	24,502	458,553	296,911
Telecommunications	54,715	4,312	59,027	162,044	210,757
Postage and shipping	207	168,805	169,012	173,050	122,264
Printing	10,319	415,959	426,278	462,323	466,009
Rent and occupancy expenses	48,268	7,376	55,644	389,721	536,314
Equipment rental and maintenance	36,746	52,232	88,978	272,209	222,571
Depreciation	23,023	1,943	24,966	347,464	356,454
Travel costs	2,508	240	2,748	7,404	10,408
Conferences, conventions, meetings	-	174	174	3,344	1,759
Advertising	26,325	4	26,329	61,168	31,199
Other expenses	252,366	39,481	291,847	499,605	328,297
Total expenses	<u>\$ 1,169,731</u>	<u>\$ 816,154</u>	<u>\$ 1,985,885</u>	<u>\$ 7,939,638</u>	<u>\$ 7,644,534</u>



**Los Angeles Society for the Prevention of Cruelty to Animals**  
**Statement of Cash Flows (with Comparative Information for 2021)**

	Years Ended August 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) increase in net assets	\$ (3,373,102)	\$ 12,249,973
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	322,498	356,454
Forgiveness of PPP loan	(942,990)	(1,025,000)
Realized and unrealized loss (gain) on investments	6,009,632	(6,238,030)
Net realized gain on disposition of fixed assets	-	17,918
Donated investments	-	(7,994)
Change in assets and liabilities		
Decrease (increase) in accounts receivable	96,763	(77,822)
(Increase) in inventory	(135,077)	(31,455)
(Increase) in interest receivable	-	(37,934)
Decrease (increase) in prepaid expenses	27,043	(58,591)
Increase in accounts payable	1,390	369,418
Increase (decrease) in accrued liabilities	255,289	(49,899)
Net cash provided by operating activities	2,261,446	5,467,038
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales or maturities of investments	485,632	6,801,692
Purchase of investments	(5,060,598)	(10,754,348)
Purchase of property and equipment	(96,689)	(61,595)
Net cash used in investing activities	(4,671,655)	(4,014,251)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from PPP loan	-	942,990
Net (decrease) increase in cash and cash equivalents	(2,410,209)	2,395,777
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>8,038,728</b>	<b>5,642,951</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 5,628,519</b>	<b>\$ 8,038,728</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 98,578	\$ 74,669
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Donated stock	\$ -	\$ 7,994
Forgiveness of PPP loan	942,990	1,025,000

See accompanying notes to financial statements.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 1 – Nature of Business and Significant Accounting Policies

**Nature of business** – Society for the Prevention of Cruelty to Animals Los Angeles (“spcaLA” or the “Organization”) is Los Angeles County’s preeminent animal welfare organization. Founded on November 16, 1877, spcaLA was the fourth Society for the Prevention of Cruelty to Animals (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 144-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:

#### 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% 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.

#### 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.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 1 – Nature of Business and Significant Accounting Policies (continued)

**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.

#### 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.

#### 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.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 1 – Nature of Business and Significant Accounting Policies (continued)

**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.

**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.

**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.

**Financial statement presentation** – spcaLA follows the financial statement presentation recommended by the Financial Accounting Standards Board (FASB) in its Accounting 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.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 1 – Nature of Business and Significant Accounting Policies (continued)

**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.

**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.

**Fair value of 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.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 1 – Nature of Business and Significant Accounting Policies (continued)

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.

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.

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

**Property and equipment** – Property and equipment is recorded at 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 net assets with donor restrictions to net assets without donor restrictions 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

**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.

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 statements of activities as net assets released from restrictions.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 1 – Nature of Business and Significant Accounting Policies (continued)

**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 2022 and 2021 was \$149,995 and \$94,225, respectively. In 2022 and 2021, volunteers donated a total of 17,480 and 16,539, respectively, 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.

**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, 2022 and 2021.

**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.

**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, 2022 and 2021, \$348,421 and \$254,041, respectively, have been recorded as accrued liabilities for unpaid vacation and sick time.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 1 – Nature of Business and Significant Accounting Policies (continued)

**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.

**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 statements of financial position. See also Note 2.

**Advertising costs** – Advertising costs are expensed as incurred by spcaLA. Total advertising costs for the year ended August 31, 2022 and 2021, were \$34,839 and \$31,199, respectively.

**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.



# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### **Note 1 – Nature of Business and Significant Accounting Policies (continued)**

*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.

**Classification of transactions** – All revenues and net gains are reported as increases in net assets without donor restrictions in the statements 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.

**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 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.

**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.

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

---

### Note 1 – Nature of Business and Significant Accounting Policies (continued)

**Recent accounting pronouncements** – In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The standard establishes a right-of-use (ROU) model that requires a lessee to recognize an ROU asset and a lease liability on the statement of financial position for all leases with lease terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. spcaLA did not adopt the new ASU as it was determined it would not have a material impact on the financial statements as a whole.

### Note 2 – Cash, Cash Equivalents, and Investments

Cash and investments held by spcaLA consisted of the following at August 31:

	2022	2021
Cash and cash equivalents	\$ 5,449,937	\$ 7,860,146
Restricted cash	178,582	178,582
Investments	40,089,800	41,524,466
Total cash and investments	<u>\$ 45,718,319</u>	<u>\$ 49,563,194</u>

At times, spcaLA's cash exceeds the current insured amount under the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation. However, management believes the risk of loss to be minimal.

The fair value of investments at August 31:

	2022	2021
Equity securities	\$ 25,201,607	\$ 26,553,969
Federal agency securities	9,338,503	10,648,399
Corporate bonds and notes	5,531,975	4,293,303
Alternative investments	17,715	28,795
Total investments	<u>\$ 40,089,800</u>	<u>\$ 41,524,466</u>

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

### Note 2 – Cash, Cash Equivalents, and Investments (continued)

Investment income consisted of the following for the year ended August 31:

	2022	2021
Interest and dividend income	\$ 1,514,516	\$ 708,070
Net realized gain	18,192,117	2,253,438
Net unrealized (loss) gain	(24,201,749)	3,984,592
Less: management fees	(89,747)	(119,724)
Investment (loss) income, net	<u>\$ (4,584,863)</u>	<u>\$ 6,826,376</u>

At August 31, 2022, 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	\$ 18,318,701	\$ 18,211,086	\$ -	\$ -
Developed international	3,815,494	3,815,494	-	-
Emerging markets	1,052,867	1,052,867	-	-
Other	2,014,545	2,014,545	-	-
Federal agency securities	9,338,503	9,338,503	-	-
Corporate bonds and notes	5,531,975	5,531,975	-	-
Alternative investments	17,715	-	-	17,715
Total	<u>\$ 40,089,800</u>	<u>\$ 39,964,470</u>	<u>\$ -</u>	<u>\$ 17,715</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	28,795	-	-	28,795
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

---

### Note 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 September 1, 2020	\$ 45,033
Disbursements	(21,801)
Change in fair value	5,563
Fair value at August 31, 2021	28,795
Disbursements	(5,500)
Change in fair value	(5,580)
Fair value at August 31, 2022	\$ 17,715

The table below presents information about unfunded commitments and redemption frequency for alternative investments at August 31, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private Equity Fund	\$ 17,715	\$ -	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.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 3 – Property and Equipment

Property and equipment consisted of the following at August 31:

	2022	2021
Land and improvements	\$ 1,037,373	\$ 1,033,615
Construction in progress	-	2,358
Buildings and improvements	11,924,608	11,756,212
Furniture, fixtures, and equipment	824,170	805,878
Automobiles and trucks	374,887	467,668
	<u>14,161,038</u>	<u>14,065,731</u>
Accumulated depreciation	<u>(7,425,263)</u>	<u>(7,104,147)</u>
Total	<u>\$ 6,735,775</u>	<u>\$ 6,961,584</u>
Depreciation expense	<u>\$ 322,498</u>	<u>\$ 356,454</u>

### Note 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, 2022, 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, 2022, 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, 2022 and 2021, there were no outstanding draws against the letter of credit. As of August 31, 2022 and 2021, \$6,200,000 of the bonds were outstanding.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 4 – Long-Term Debt (continued)

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, 2022, for the 2002 Variable Rate Demand Revenue Bonds Series A is as follows:

	Series A*
Years Ending August 31,	
2023	\$ 39,680
2024	39,680
2025	39,680
2026	39,680
2027	39,680
Thereafter	<u>7,241,600</u>
Total payments	7,440,000
Less: interest	<u>(1,240,000)</u>
Total principal outstanding	<u><u>\$ 6,200,000</u></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, 2022 and 2021.

**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 SBA PPP in the amount of \$942,990. On September 28, 2021, the loan received full forgiveness by the SBA and the loan was forgiven in full. The gain on the forgiveness of the loans is included in contributions on the statements of activities.

### Note 5 – City of Long Beach Lease Agreement

In a lease agreement dated August 1, 1998, the city of Long Beach (the “City”) 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

---

#### Note 6 – Operating Lease Commitment

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

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

	Amount
Years Ending August 31,	
2023	\$ 12,204
2024	12,204
2025	12,204
2026	5,085
2027	-
	<hr/>
Total payments	<u><u>\$ 41,697</u></u>

Expenses incurred under the leases totaled \$28,676 and \$33,405 for the fiscal years ended August 31, 2022 and 2021, respectively.

#### Note 7 – 401(k) Plan

spcaLA has implemented a 401(k) Plan (the “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. Employer contributions are based on a percentage of covered employees’ salaries. Employer contributions for 2022 and 2021 were \$152,226 and \$156,855, respectively. Employees are eligible to withhold up to 100% of their compensation plus up to 100% of any employer paid cash bonus, not to exceed \$20,500 in 2022 and \$19,500 in 2021, to deposit in the Plan fund.

# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 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, are as follows:

	2022	2021
Financial assets		
Cash and cash equivalents	\$ 5,449,937	\$ 7,860,146
Accounts receivable, net	123,046	219,809
Interest receivable	37,934	37,934
Restricted cash	178,582	178,582
Investments	40,089,800	41,524,466
Total financial assets	<u>45,879,299</u>	<u>49,820,937</u>
Less: financial assets held to meet donor-imposed restrictions		
Purpose restricted net assets	(547,841)	(542,806)
Time restricted net assets	(30)	(30)
Donor-restricted endowment	(178,582)	(178,582)
Less: financial assets not available within one year		
Long-term investments	<u>(17,715)</u>	<u>(4,006,159)</u>
Amount available for general expenditures within one year	<u>\$ 45,135,131</u>	<u>\$ 45,093,360</u>

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.

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

### Note 9 – Net Assets

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

	2022	2021
Invested in spcaLA property and equipment, net of related debt	\$ 535,775	\$ 761,584
Undesignated, available for operations	<u>44,587,655</u>	<u>47,739,983</u>
Total net assets without donor restrictions	<u>\$ 45,123,430</u>	<u>\$ 48,501,567</u>



# Los Angeles Society for the Prevention of Cruelty to Animals

## Notes to Financial Statements

---

### Note 9 – Net Assets (continued)

Net assets with donor restrictions consisted of the following at August 31, 2022 and 2021:

	2022	2021
Purpose restrictions available for spending		
Companion animal services	\$ 481,268	\$ 476,233
Education and outreach	64,990	64,990
Animal protective services	1,583	1,583
	<u>547,841</u>	<u>542,806</u>
Total purpose restricted net assets		
Time restrictions		
Pledges receivable, which are unavailable for spending until due, some of which are also purposed restricted	30	30
	<u>30</u>	<u>30</u>
Total time restricted net assets		
Endowment funds, which must be appropriated by the Board of Directors before use		
spcaLA's endowment account	178,582	178,582
	<u>178,582</u>	<u>178,582</u>
Total endowment funds		
Total net assets with donor restrictions	<u>\$ 726,453</u>	<u>\$ 721,418</u>

### Note 10 – Subsequent Events

Subsequent events have been evaluated by management through September 5, 2023, which is the date the financial statements were issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.