

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

FINANCIAL STATEMENTS

August 31, 2023

(with Summarized Comparative Information for 2022)

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Los Angeles Society for the Prevention of Cruelty to Animals (a nonprofit organization), which comprise the statement of financial position as of August 31, 2023, 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 financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Society for the Prevention of Cruelty to Animals (the Organization) as of August 31, 2023, 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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.

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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 the Organization's 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 the Organization's 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.

Report on Summarized Comparative Information

The financial statements of the Organization as of and for the year ended August 31, 2022 were audited by other auditors, whose report dated September 5, 2023, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Long Beach, California
February 1, 2024

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2023
(WITH COMPARATIVE INFORMATION FOR 2022)**

ASSETS

	2023	2022
Cash and cash equivalents	\$ 5,573,577	\$ 5,628,519
Investments	42,623,124	40,089,800
Accounts receivable	206,186	123,046
Inventory	122,276	307,233
Interest receivable	-	37,934
Prepaid expenses	129,595	79,645
Deposits	1,750	1,750
Property and equipment, net	6,861,492	6,735,775
TOTAL ASSETS	\$ 55,518,000	\$ 53,003,702

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 171,594	\$ 439,699
Accrued liabilities	397,531	514,120
Long-term debt	6,200,000	6,200,000
Total Liabilities	6,769,125	7,153,819

NET ASSETS

Without donor restrictions	48,570,263	45,123,430
With donor restrictions	178,612	726,453
Total net assets	48,748,875	45,849,883

TOTAL LIABILITIES AND NET ASSETS	\$ 55,518,000	\$ 53,003,702
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The accompanying notes are an integral part of these financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2023
(WITH COMPARATIVE INFORMATION FOR 2022)**

	Without Donor Restrictions	With Donor Restrictions	2023	2022
PROGRAM REVENUE				
Animal shelter contracts	\$ 568,123	\$ -	\$ 568,123	\$ 536,030
Other adoption center charges	332,101	-	332,101	330,653
Animal placement fee	210,064	-	210,064	136,695
Animal protection services	328	-	328	1,162
Merchandise sales, net of costs	(68,724)	-	(68,724)	195,610
Other shelter charges	<u>106,373</u>	<u>-</u>	<u>106,373</u>	<u>100,612</u>
Total program revenue	<u>1,148,265</u>	<u>-</u>	<u>1,148,265</u>	<u>1,300,762</u>
PUBLIC SUPPORT				
Contributions	2,930,305	-	2,930,305	3,754,533
In-kind contributions	168,985	-	168,985	149,994
Bequests	3,716,097	-	3,716,097	3,907,080
Special events, net	<u>160,750</u>	<u>-</u>	<u>160,750</u>	<u>38,030</u>
Total public support	<u>6,976,137</u>	<u>-</u>	<u>6,976,137</u>	<u>7,849,637</u>
Investment income (loss)	2,769,537	-	2,769,537	(4,583,863)
Net assets released from restrictions	<u>547,841</u>	<u>(547,841)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>11,441,780</u>	<u>(547,841)</u>	<u>10,893,939</u>	<u>4,566,536</u>
PROGRAM SERVICES				
Companion animal services	4,640,244	-	4,640,244	4,121,448
Animal protection services	831,709	-	831,709	888,215
Education and outreach	1,197,512	-	1,197,512	931,443
Volunteer programs	<u>101,972</u>	<u>-</u>	<u>101,972</u>	<u>12,647</u>
Total program services	<u>6,771,437</u>	<u>-</u>	<u>6,771,437</u>	<u>5,953,753</u>
SUPPORTING SERVICES				
General and administrative expense	520,424	-	520,424	1,169,731
Fundraising	<u>703,086</u>	<u>-</u>	<u>703,086</u>	<u>816,154</u>
Total supporting services	<u>1,223,510</u>	<u>-</u>	<u>1,223,510</u>	<u>1,985,885</u>
Total expenses	<u>7,994,947</u>	<u>-</u>	<u>7,994,947</u>	<u>7,939,638</u>
CHANGE IN NET ASSETS	3,446,833	(547,841)	2,898,992	(3,373,102)
NET ASSETS - BEGINNING OF YEAR	<u>45,123,430</u>	<u>726,453</u>	<u>45,849,883</u>	<u>49,222,985</u>
NET ASSETS - END OF YEAR	<u>\$ 48,570,263</u>	<u>\$ 178,612</u>	<u>\$ 48,748,875</u>	<u>\$ 45,849,883</u>

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2023
(WITH COMPARATIVE INFORMATION FOR 2022)**

	<u>Companion Animal Services</u>	<u>Animal Protection Services</u>	<u>Education and Outreach</u>	<u>Volunteer Programs</u>	<u>Total Program Expense</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Supporting Services Expense</u>	<u>Totals</u>	
									<u>2023</u>	<u>2022</u>
Salaries and benefits	\$ 2,432,632	\$ 545,021	\$ 762,234	\$ 77,322	\$ 3,817,209	\$ 255,773	\$ 140,010	\$ 395,783	\$ 4,212,992	\$ 4,502,180
Contract services	524,174	136,734	45,150	5,780	711,838	70,285	19,070	89,355	801,193	600,573
Supplies	429,937	19,540	21,016	1,892	472,385	13,500	4,832	18,332	490,717	458,553
Telecommunications	67,191	31,806	17,262	3,300	119,559	18,109	7,602	25,711	145,270	162,044
Postage and shipping	4,641	204	59,019	24	63,888	374	102,529	102,903	166,791	173,050
Printing	7,852	2,185	154,581	1,385	166,003	2,206	316,482	318,688	484,691	462,323
Rent and occupancy expenses	353,616	10,921	45,101	1,315	410,953	37,628	8,875	46,503	457,456	389,721
Equipment rental and maintenance	82,109	30,516	46,367	4,042	163,034	31,631	49,591	81,222	244,256	272,209
Depreciation	352,422	13,414	6,027	924	372,787	20,532	2,326	22,858	395,645	347,464
Conferences, conventions, meetings	12,823	5,231	6,494	81	24,629	2,656	1,039	3,695	28,324	10,748
Advertising	2,055	-	8,569	-	10,624	-	15,957	15,957	26,581	61,168
Other expenses	<u>370,792</u>	<u>36,137</u>	<u>25,692</u>	<u>5,907</u>	<u>438,528</u>	<u>67,730</u>	<u>34,773</u>	<u>102,503</u>	<u>541,031</u>	<u>499,605</u>
Total functional expenses	<u>\$ 4,640,244</u>	<u>\$ 831,709</u>	<u>\$ 1,197,512</u>	<u>\$ 101,972</u>	<u>\$ 6,771,437</u>	<u>\$ 520,424</u>	<u>\$ 703,086</u>	<u>\$ 1,223,510</u>	<u>\$ 7,994,947</u>	<u>\$ 7,939,638</u>

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2023
(WITH COMPARATIVE INFORMATION FOR 2022)**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,898,992	\$ (3,373,102)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	395,645	347,464
Forgiveness of PPP loan	-	(942,990)
Realized and unrealized (gain) loss on investments	(792,387)	6,009,632
Gain on disposal of property and equipment	(6,000)	-
Change in operating assets and liabilities:		
Accounts receivable	(83,140)	96,763
Inventory	184,957	(135,077)
Interest receivable	37,934	-
Prepaid expenses	(49,950)	27,043
Accounts payable	(268,105)	1,390
Accrued liabilities	(116,589)	255,289
Net Cash Provided By Operating Activities	2,201,357	2,286,412
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales or maturities of investments	8,762,204	485,632
Purchase of investments	(10,503,141)	(5,060,598)
Purchase of property and equipment	(515,362)	(121,655)
Net Cash Used In Investing Activities	(2,256,299)	(4,696,621)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(54,942)	(2,410,209)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,628,519	8,038,728
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,573,577	\$ 5,628,519
NONCASH INVESTING AND FINANCING ACTIVITIES		
Donated stock	\$ 52,131	\$ -

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 1 – Organization

Nature of Business

Los Angeles Society for the Prevention of Cruelty to Animals (“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 of America 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. Today, the 146-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 spcaLA is provided by private donations from individuals, corporations, and foundations.

The Organization operates four major programs, described below:

COMPANION ANIMAL SERVICES - In addition to providing safe shelter and nourishing food to thousands of homeless, abused, and otherwise in-need animals annually, spcaLA offers the following:

- Pet adoption and lost pet reunification services;
- Veterinary care – including preventative care and more complex procedures – for shelter pets, as well as low-cost vaccine clinics for the public;
- Animal training and enrichment to enhance the lives of shelter pets, as well as dog training classes, a behavior library, and a helpline for pet owners;
- Pet rehoming through estate planning, in which spcaLA can take and rehome pets pursuant to program guidelines, offering peace of mind to donors.

ANIMAL PROTECTION SERVICES - spcaLA is the only animal welfare organization in the city of Los Angeles that also serves as law enforcement. Program areas include:

- *Animal Cruelty Investigations* in which spcaLA’s Humane Officers investigate animal cruelty cases and prosecute individuals or organizations who neglect or abuse animals anywhere within the state of California;
- *Disaster Animal Response Team (DART)TM* in which spcaLA rescues and provides temporary shelter and front-line veterinary care for animals during emergencies and disasters on a local, national, and international level.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 1 – Organization (Continued)

VIOLENCE PREVENTION HUMANE EDUCATION - spcaLA programs aim to support the development of healthy relationships and compassionate communities as one way to prevent animal cruelty and interpersonal violence. This is done by:

- Engaging youth and children in empathy-based animal welfare education and social-emotional learning;
- Offering violence intervention and support services for adults and families;
- Encouraging youth advocacy for animals, others, and themselves.

Program areas include:

- *Animal Safety Net (ASN)™*, a program for individuals and families in crisis. ASN Pet Housing offers free, temporary housing for the pets of survivors of domestic violence (DV), families without homes, or individuals entering addiction or mental health treatment centers.
- *Teaching Love & Compassion (TLC)™*, an award-winning program for underserved youth that offers a small-group format that combines social and emotional learning with animal welfare lessons and hands-on positive reinforcement training with shelter dogs;
- *spcaLA Court Diversion Program for Youth*, an animal-assisted intervention program modeled after TLC but specifically made for justice system-involved youth;
- *Friends for Life Summer Camp*, *Pet Care Patch Workshops*, and other education initiatives wherein youth enjoy a variety of humane education activities as well as hands-on activities with shelter animals.

VOLUNTEER SERVICES - spcaLA relies on its corps of volunteers to provide operational and programmatic support. Volunteers are provided robust training opportunities, open communication, and the support of spcaLA's Volunteer Services Manager. Volunteer opportunities include:

- *Fostering*, in which volunteers provide temporary, in-home care for sick, injured, and abused animals, including newborn kittens and puppies in need of bottle feeding;
- *In-shelter work with cats, dogs, and small animals*, in which volunteers help teach basic obedience, provide enrichment, socialization, and grooming for shelter pets, and help clean and maintain shelter pet habitats, thereby enhancing their lives;
- *Program support*, in which volunteers provide specialized support for Violence Prevention Humane Education, Veterinary Services, and other programs;
- *Administrative and general support*, in which volunteers provide clerical, event, and other support needed.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting; consequently, revenue and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets. Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. When the restrictions have been satisfied, the net assets with donor restrictions are reclassified to net assets without donor restrictions. Other donor restrictions may be perpetual in nature and cannot be expended by the Organization. Generally, the donors of these assets permit the Organization to use the income earned on these assets for general or specific purposes. Grants and contributions with donor restrictions whose restrictions are met in the same reporting period are reported as revenue without donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported changes in the Organization's net assets during the reporting period. Actual results could differ from those estimates.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Prior Period Information

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 U.S. GAAP. Accordingly, such information should be read in conjunction with spcaLA's prior year financial statements, from which this selected financial data was derived.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes currency on hand, 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.

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.

Accounts Receivable

Accounts receivable is stated at amounts management expects to collect from outstanding balances. Management provides for a probable uncollectible amount through a charge to earnings and a credit to the valuation allowance based on its assessment of the current status of individual accounts. Accounts are considered to be past due when payment has not been received by the due date stated on the invoice.

Accounts receivable balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management has determined that no allowance for doubtful accounts as of August 31, 2023 and 2022 was deemed necessary.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Inventory

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

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.

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, and equipment	3–15 years
Automobiles and trucks	3–10 years

Impairment of Long-Lived Assets

The Organization evaluates the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment was deemed necessary during the years ended August 31, 2023 and 2022.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of 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. 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 THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (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.

Revenue and Support

The Organization follows Accounting Standards Codification (ASC) 958-605, *Revenue Recognition* as it relates to contributions. In accordance with ASC 958-605, contributions received are recorded as net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenue 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.

Contributions, including unconditional promises to give, are recognized when the promise to give is received. 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.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Revenue and Support (Continued)

The Organization follows ASC 606 for recognizing revenue on its various contracts. Contracts to provide shelter services for various cities and cover a period of time. Revenue is recognized over time as the services are performed. Other revenues, such as placement fees, adoption charges, and protection services are recognized at the time the service or sale takes place.

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 2023 and 2022 was \$168,985 and \$149,994, respectively. In 2023 and 2022, volunteers donated a total of 29,856 and 17,480 hours, respectively, providing non-specialized services for spcaLA's many animal welfare programs, assisting with fundraising events, and serving as officers and directors. Contributions of services 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. Donated materials are valued based on recent and comparable sales of similar assets. All donated materials were used in programs during the years ended August 31, 2023 and 2022.

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, 2023 and 2022. The statute of limitations for federal state purposes is generally three and four years, respectively.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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, 2023 and 2022, \$255,115 and \$254,041, respectively, have been recorded as accrued liabilities for unpaid vacation and sick time.

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 cash and cash equivalents in the statement of financial position.

Endowments

spcaLA's endowment consists of funds established for donor-restricted funds. As required by U.S. GAAP, 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.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Endowments (Continued)

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.

There were no changes in the endowment balance during the years ended August 31, 2023 and 2022.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The primary change in generally accepted accounting principles addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement of financial position a liability to make lease payments ("lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 Topic 842 is effective for fiscal years beginning after December 15, 2021. Lessees must apply a modified-retrospective transition approach for leases existing at, or entered after, the beginning of the earliest comparative period presented in the financial statements. The Organization has adopted and evaluated the effect of ASU 2016-02 Topic 842 and there are no material leases to disclose on the financial statements and related disclosures. The Organization has elected a capitalization threshold of leases under ASC Topic 842 of \$150,000.

Recently Issued Accounting Pronouncements

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. The standard is effective for fiscal years beginning after December 31, 2022. Early adoption is permitted. Management is evaluating the impact of this guidance.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are expensed as incurred by spcaLA. Total advertising costs for the years ended August 31, 2023 and 2022, were \$26,581 and \$61,168, respectively.

NOTE 3 – 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:

	<u>2023</u>
Financial assets	
Cash and cash equivalents	\$ 5,573,577
Accounts receivable	206,186
Investments	<u>42,623,124</u>
Total financial assets	48,402,887
Less financial assets held to meet donor-imposed restrictions	
Donor-restricted endowment	<u>(178,612)</u>
	 <u>\$ 48,224,275</u>

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 4 – Investments and Fair Value Measurements

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

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 2,035,044	\$ 1,514,516
Net realized (loss) gain	(2,043,099)	18,192,117
Net unrealized gain (loss)	2,835,486	(24,201,749)
Less: management fees	<u>(57,894)</u>	<u>(89,747)</u>
Investment income (loss), net	<u>\$ 2,769,537</u>	<u>\$ (4,584,863)</u>

At August 31, 2023, the fair values of investments based on the fair value hierarchy are as follows:

	<u>2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities and funds	\$ 28,976,821	\$ -	\$ -	\$ 28,976,821
Fixed income	13,632,210	-		13,632,210
Alternative investments	<u>-</u>	<u>-</u>	<u>14,093</u>	<u>14,093</u>
Total	<u>\$ 42,609,031</u>	<u>\$ -</u>	<u>\$ 14,093</u>	<u>\$ 42,623,124</u>

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023**

NOTE 4 – Investments and Fair Value Measurements (Continued)

At August 31, 2022, the fair values of investments based on the fair value hierarchy are as follows:

	2022			Total
	Level 1	Level 2	Level 3	
Equity securities and funds	\$ 25,201,607	\$ -	\$ -	\$ 25,201,607
Fixed income	14,870,478	-	-	14,870,478
Alternative investments	-	-	17,715	17,715
 Total	<u>\$ 40,072,085</u>	<u>\$ -</u>	<u>\$ 17,715</u>	<u>\$ 40,089,800</u>

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, 2021	\$ 28,795
Disbursements	(5,500)
Change in fair value	(5,580)
 Fair value at August 31, 2022	 17,715
Disbursements	-
Change in fair value	(3,622)
 Fair value at August 31, 2023	 <u>\$ 14,093</u>

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 THE FINANCIAL STATEMENTS
AUGUST 31, 2023**

NOTE 5 – Property and Equipment

Property and equipment consisted of the following at August 31:

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 1,072,697	\$ 1,037,373
Buildings and improvements	12,210,721	11,924,608
Furniture, fixtures, and equipment	903,476	824,170
Automobiles and trucks	<u>374,887</u>	<u>374,887</u>
	14,561,781	14,161,038
Less accumulated depreciation	<u>(7,700,289)</u>	<u>(7,425,263)</u>
Total	<u>\$ 6,861,492</u>	<u>\$ 6,735,775</u>

NOTE 6 – Long-Term Debt

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

The bonds mature on July 1, 2033. Only interest payments are due prior to the maturity date. At August 31, 2023, the variable interest rate was 2.94% of the interest payable on the bonds to a fixed rate of interest spcaLA may elect to convert. As of August 31, 2023, 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 Organization's Trustee for interest and/or principal payments. As of August 31, 2023 and 2022, there were no outstanding draws against the letter of credit. As of August 31, 2023 and 2022, \$6,200,000 of the bonds were outstanding.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 8 – Lease Commitment

spcaLA has two vehicle leases used to transport materials, supplies, and pets. The lease terms are for one year and seven years at \$1,823 per month and \$0.10 per mile and \$1,017 and \$0.10 per mile, respectively. Future minimum lease payments are approximately \$50,000 over the next two years. Expenses incurred under the leases totaled \$36,243 and \$28,676 for the years ended August 31, 2023 and 2022, respectively.

NOTE 9 – 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 a “catch up” contribution of \$6,500 as allowed by law 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 2023 and 2022 were \$98,032 and \$152,226, 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 \$22,500 in 2023 and \$20,500 in 2022, to deposit in the Plan fund.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023

NOTE 10 – Net Assets

Net assets with donor restrictions consisted of the following at August 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Invested in spcaLA property and equipment, net of related debt	\$ 535,775	\$ 535,775
Undesignated, available for operations	<u>48,034,488</u>	<u>44,587,655</u>
 Total net assets without donor restrictions	 <u>\$ 48,570,263</u>	 <u>\$ 45,123,430</u>
	<u>2023</u>	
Endowment funds, which must be appropriated in accordance with donor agreements		
spcaLA's endowment account	<u>\$ 178,612</u>	

NOTE 11 – Subsequent Events

Subsequent events have been evaluated by management through February 1, 2024, 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.