

**SACRAMENTO SOCIETY FOR  
THE PREVENTION OF  
CRUELTY TO ANIMALS**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED  
DECEMBER 31, 2022 AND 2021**

**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**TABLE OF CONTENTS  
DECEMBER 31, 2022 AND 2021**

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	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS:</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8

## INDEPENDENT AUDITOR'S REPORT

**The Board of Directors  
Sacramento Society for the  
Prevention of Cruelty to Animals**

### **Opinion**

We have audited the accompanying financial statements of the Sacramento Society for the Prevention of Cruelty to Animals (the Society), which comprise the statement of financial position as of December 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 financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 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. 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 the Society 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.

### ***Prior Period Financial Statements***

The financial statements of the Sacramento Society for the Prevention of Cruelty to Animals as of December 31, 2021, were audited by other auditors whose report dated July 21, 2022 expressed an unmodified opinion on those statements.

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



**GILBERT CPAs**  
**Sacramento, California**

**January 5, 2024**

**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,920,005	\$ 10,639,300
Accounts receivable	131,249	93,015
Contributions receivable	638,816	42,497
Other receivables	18,656	67,338
Inventory	16,595	28,722
Prepaid expenses and deposits	<u>104,915</u>	<u>80,912</u>
Total current assets	6,830,236	10,951,784
<b>NON-CURRENT ASSETS:</b>		
Investments	12,601,236	9,274,650
Property and equipment, net	7,991,118	8,195,249
Operating lease, right-of-use asset	23,632	
Beneficial interest in perpetual trust	312,848	372,463
Beneficial interest in assets held by SRCF	<u>10,941</u>	<u>13,853</u>
<b>TOTAL ASSETS</b>	<u>\$ 27,770,011</u>	<u>\$ 28,807,999</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 428,768	\$ 163,062
Accrued expenses	565,662	565,451
Current portion of operating lease liability	<u>4,657</u>	<u>          </u>
Total current liabilities	999,087	728,513
<b>OPERATING LEASE LIABILITY, Net</b>	<u>18,975</u>	<u>          </u>
Total liabilities	<u>1,018,062</u>	<u>728,513</u>
<b>NET ASSETS:</b>		
Without donor restrictions	25,540,784	26,815,445
With donor restrictions	<u>1,211,165</u>	<u>1,264,041</u>
Total net assets	<u>26,751,949</u>	<u>28,079,486</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 27,770,011</u>	<u>\$ 28,807,999</u>

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

**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u><b>2022</b></u>	<u><b>2021</b></u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
<b>REVENUES, GAINS AND SUPPORT:</b>		
Contributions, bequests and grants	\$ 6,641,407	\$ 4,876,135
Program fees	2,791,183	2,696,987
Special events, net of direct benefit to donors of \$186,004 and \$146,537 respectively	485,152	309,177
Vehicle donation program, net of direct expenses of \$39,155 and \$47,411, respectively	166,668	211,674
Gifts in-kind	180,141	247,661
Investment returns (loss), net	(1,699,285)	905,183
Distributions from beneficial interests	13,578	
Other income	3,807	52,024
Net assets released from restrictions	<u>197,140</u>	<u>3,543,862</u>
Total revenues, gains and support	<u>8,779,791</u>	<u>12,842,703</u>
<b>EXPENSES:</b>		
Program services:		
Spay and neuter clinic	4,146,125	3,204,660
Animal services	2,453,666	2,111,599
Community outreach	1,021,615	944,363
Adoptions	<u>757,818</u>	<u>696,307</u>
Total program services	<u>8,379,224</u>	<u>6,956,929</u>
Supporting services:		
General and administrative	676,673	456,461
Fundraising	<u>1,010,715</u>	<u>926,734</u>
Total supporting services	<u>1,687,388</u>	<u>1,383,195</u>
Total expenses	<u>10,066,612</u>	<u>8,340,124</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	(1,286,821)	4,502,579
Gain (loss) on disposal of property and equipment	<u>12,160</u>	<u>(437,863)</u>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>(1,274,661)</u>	<u>4,064,716</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions and bequests	206,791	1,742,116
Change in value of beneficial interests	(62,527)	
Net assets released from restrictions	<u>(197,140)</u>	<u>(3,543,862)</u>
<b>DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>(52,876)</u>	<u>(1,801,746)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(1,327,537)	2,262,970
<b>NET ASSETS, Beginning of Year</b>	<u>28,079,486</u>	<u>25,816,516</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 26,751,949</u>	<u>\$ 28,079,486</u>

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

**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2022**

	<u>Program services</u>				<u>Supporting services</u>			<u>Total</u>
	<u>Spay and neuter clinic</u>	<u>Animal services</u>	<u>Community outreach</u>	<u>Adoptions</u>	<u>Total program services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 2,592,323	\$ 1,186,469	\$ 708,253	\$ 343,534	\$ 4,830,579	\$ 262,225	\$ 522,813	\$ 5,615,617
Employee benefits and taxes	550,812	232,054	94,669	48,730	926,265	214,853	84,271	1,225,389
Total employee compensation	3,143,135	1,418,523	802,922	392,264	5,756,844	477,078	607,084	6,841,006
Direct support for animals	582,246	457,462	23,259	1,644	1,064,611		36	1,064,647
Occupancy	125,247	159,798	21,022	156,951	463,018	18,909	21,443	503,370
Depreciation	100,242	198,359	27,767	132,450	458,818	25,763	13,873	498,454
Printing, publishing, postage	28,851	53,680	64,229	14,557	161,317	19,409	260,276	441,002
Professional fees	82,040	85,092	43,772	22,328	233,232	99,402	61,869	394,503
Computer expense	19,540	13,377	15,153	2,984	51,054	4,922	28,881	84,857
Insurance	11,779	23,308	3,263	15,563	53,913	3,027	1,630	58,570
Communications	8,601	14,203	7,989	3,874	34,667	7,884	4,684	47,235
Office supplies and expense	21,503	9,380	5,327	5,853	42,063	666	2,730	45,459
Facilities and equipment rental	4,880	7,313	759	5,820	18,772	704	733	20,209
Doubtful pledges expense						12,928		12,928
Travel and automobile	1,995	3,886	1,127	1,812	8,820	652	573	10,045
Dues and memberships	1,394	2,789	1,656	761	6,600	1,014	1,559	9,173
Miscellaneous expense	14,672	6,496	3,370	957	25,495	4,315	5,344	35,154
<b>Total</b>	<u>\$ 4,146,125</u>	<u>\$ 2,453,666</u>	<u>\$ 1,021,615</u>	<u>\$ 757,818</u>	<u>\$ 8,379,224</u>	<u>\$ 676,673</u>	<u>\$ 1,010,715</u>	<u>\$ 10,066,612</u>

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

**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2021**

	<u>Program services</u>				<u>Supporting services</u>			<u>Total</u>
	<u>Spay and neuter clinic</u>	<u>Animal services</u>	<u>Community outreach</u>	<u>Adoptions</u>	<u>Total program services</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Salaries	\$ 1,993,596	\$ 1,026,770	\$ 642,122	\$ 312,739	\$ 3,975,227	\$ 260,725	\$ 471,552	\$ 4,707,504
Employee benefits and taxes	450,410	224,910	140,757	68,667	884,744	56,512	103,689	1,044,945
Total employee compensation	2,444,006	1,251,680	782,879	381,406	4,859,971	317,237	575,241	5,752,449
Direct support for animals	432,510	375,923	7,013	478	815,924			815,924
Occupancy	94,211	119,724	15,688	118,943	348,566	14,299	14,076	376,941
Depreciation	99,912	197,704	27,675	132,013	457,304	25,678	13,827	496,809
Printing, publishing, postage	25,461	49,147	58,613	13,518	146,739	17,704	243,117	407,560
Professional fees	50,101	34,161	20,025	9,797	114,084	64,212	33,504	211,800
Computer expense	13,971	9,828	10,594	1,924	36,317	2,886	25,589	64,792
Insurance	14,309	28,316	3,964	18,908	65,497	3,678	1,980	71,155
Communications	9,042	14,688	9,097	4,006	36,833	7,306	4,771	48,910
Office supplies and expense	10,515	17,680	3,806	7,537	39,538	1,425	4,413	45,376
Facilities and equipment rental	3,848	5,814	517	4,920	15,099	479	2,427	18,005
Doubtful pledges expense							1,209	1,209
Travel and automobile	1,855	3,971	1,936	1,949	9,711	458	233	10,402
Dues and memberships	1,123	2,055	1,709	560	5,447	747	621	6,815
Miscellaneous expense	3,796	908	847	348	5,899	352	5,726	11,977
<b>Total</b>	<b><u>\$ 3,204,660</u></b>	<b><u>\$ 2,111,599</u></b>	<b><u>\$ 944,363</u></b>	<b><u>\$ 696,307</u></b>	<b><u>\$ 6,956,929</u></b>	<b><u>\$ 456,461</u></b>	<b><u>\$ 926,734</u></b>	<b><u>\$ 8,340,124</u></b>

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



**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (1,327,537)	\$ 2,262,970
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	498,454	496,809
Reduction in operating lease, right-of-use asset	1,139	
Receipt of donated assets	(13,862)	(40,847)
Net realized and unrealized (gain) loss on investments	1,967,500	(826,942)
Change in value of beneficial interests	62,527	(15,115)
Net loss (gain) on disposal of assets	(12,160)	437,863
Changes in:		
Accounts receivable	(38,234)	45,980
Contributions receivable	(596,319)	1,007,820
Other receivables	48,682	(19,543)
Inventory	12,127	(4,364)
Prepaid expenses and deposits	(24,003)	(4,515)
Accounts payable	265,706	(1,796,093)
Accrued expenses	211	
Operating lease liability	(1,139)	
Net cash provided by operating activities	<u>843,092</u>	<u>1,544,023</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(8,700,892)	(3,698,553)
Proceeds from sale of investments	3,406,806	6,994,064
Purchases of property and equipment	(287,886)	(697,262)
Proceeds from sale of property and equipment	19,585	
Net cash provided (used) by investing activities	<u>(5,562,387)</u>	<u>2,598,249</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	(4,719,295)	4,142,272
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>10,639,300</u>	<u>6,497,028</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 5,920,005</u>	<u>\$ 10,639,300</u>
<b>NON-CASH ACTIVITY:</b>		
Acquisition of right-of-use asset through operating lease obligation	<u>\$ 24,771</u>	<u>\$</u>

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

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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### 1. ORGANIZATION

The Sacramento Society for the Prevention of Cruelty to Animals (the Society) was founded in 1892 and incorporated as a non-profit organization in 1927. The Society serves the entire Sacramento region as a premier provider of low-cost spay/neuter services, collaborating with local rescue groups, feral cat caregivers, those in need, and the public to alter more than 19,900 animals in 2022.

Additionally, 47,982 low-cost and no-cost vaccinations were provided to the community, animals received low-cost veterinary exams and more than 3,600 sick, injured and homeless animals found new homes through the shelter's adoption facility. An active humane education program operates for children each year and 256,000 meals were served to 36,600 animals during the twice-weekly pet food pantry. Reaching out to seniors, hundreds are visited under the pet-facilitated visitation program and thousands receive free vaccinations for their pets. Over 800 volunteers augment the care for the thousands of unwanted, abused, and injured animals that seek shelter at the Society and help with special events.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Society reports information regarding its financial position and activities according to two classes of net assets:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Society. These net assets may be used at the discretion of management.

*Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires (generally, as payments are made to fulfill the purposes of the contribution), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as satisfactions of restrictions.

**Cash and cash equivalents** – For financial statement purposes, the Society considers investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

The Society minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institutions. The balance at times may exceed federally insured limits. Balances exceeded federally insured limits by \$3,305,168 and \$5,308,376 for the years ending December 31, 2022, and 2021, respectively. The Society has not experienced any losses in such accounts and management believes the Society is not exposed to any significant credit risk related to cash.

**Accounts receivable** represent amounts of which the Society has an unconditional right to receive. The receivables are stated at the amount management expects to be collected from the outstanding balance. The Society considers accounts receivables to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. If amounts become uncollectible, they will be charged to operations when that determination is made.

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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**Contributions receivable** – Unconditional promises to give that are expected to be collected in one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which are measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. In subsequent years, amortization of the discounts is included in contribution revenue.

**Inventory** – Inventory consists of merchandise for sale at an on-site gift shop and is stated at cost, using the first-in, first-out (FIFO) method.

**Investments** – The Society carries investments in marketable securities and debt securities at their fair values. Purchases and sales of securities are reflected on a trade-date basis. Unrealized and realized gains and losses are included in the accompanying statement of activities. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date. Investment income and gains restricted by a donor are reported as increases or decreases in net assets with or without donor restrictions depending on the nature of the restrictions.

**Property and equipment** is stated at cost, or, if donated, at fair market value as of the date of donation. The Society capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method overestimated useful lives of individual assets ranging from 3 to 25 years.

**Beneficial interest in perpetual trust** – The Society has been named the beneficiary of a perpetual trust held and administered by an independent trustee. The perpetual trust provides for the distribution of the net income of the trust to the Society; however, the Society will never receive the assets of the trust. At the date the Society received notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature was recorded in the statement of activities, and a beneficial interest in perpetual trust was recorded in the statement of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interest in the trust is reported at the fair value of the trust assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities.

**Beneficial interest in assets held by SRCF** – In 2016, the Society established an endowment fund that is perpetual in nature (the fund) with the Sacramento Region Community Foundation (SRCF). The Society granted variance power to SRCF, which allows SRCF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgement of SRCF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by SRCF for the Society's benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

**Leases** – The Society determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets are also adjusted for prepaid or accrued rent. The Society uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Society has made an accounting policy election to use the risk-free rate at the lease

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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commencement date, in lieu of its incremental borrowing rate to discount future lease payments. Operating lease expense is recognized on a straight-line basis over the lease term. Lease terms may include options to renew, extend, or terminate to the extent they are reasonably certain to be exercised. The Society does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

**Revenue recognition** – The Society’s revenue from contracts with customers consists of revenue from the spay and neuter clinic, animal services, adoptions, and other program services that are included in program fees on the statement of activities. These revenues are recognized when the related services occur. Included in program fees are revenues from government contracts which are recognized as performance obligations are satisfied and qualifying expenses are incurred, in accordance with the terms of applicable contracts. Renewal of these contracts or receipt of payment for services performed may become uncertain if the government experiences budget constraints. Under the typical payment terms of contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (monthly, quarterly, or annually), or when services are provided.

Funds received in advance of being earned are recorded as deferred revenue, which represents a contract liability. A contract asset is recorded when the Society satisfies a performance obligation of a contract but is not yet entitled to payment. When the organization becomes entitled to payment, the contract asset is classified as a receivable, whether invoiced or not. Some performance obligations are satisfied at a point in time, such as spay and neuter clinic services, adoption services, and services provided to governments under service contracts. Other performance obligations could be satisfied over time and are recognized evenly over the performance period. The Society does not have any revenue from contracts with customers for which the performance obligations are satisfied over time.

Contract assets consist of accounts receivable for services performed by the Society that have not been paid by the customers. The balances of contract assets as of December 31, 2022, 2021 and 2020 were \$131,249, \$93,015, and \$138,995, respectively. Funds received in advance of being earned are recorded as deferred revenue, which represents a contract liability. There was no deferred revenue related to contracts with customers at December 31, 2022, 2021, or 2020.

Grants and contributions are recognized in full when received or unconditionally promised, in accordance with professional standards. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met, generally through the incurrence of qualifying expenses or through performance-related deliverables. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire, or the contributions are used for the restricted purpose. Net assets with donor restrictions also includes those whose use by the Society is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Society. Donor-restricted contributions that are also conditional, and for which the condition and restriction are released in the same period, are reported as revenue without donor restrictions. One outstanding conditional promise to give, subject to qualifying expenses, of \$705,000 at December 31, 2022, will be recognized as the conditions are

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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met. Payment of this grant is contingent upon the Society increasing pay for veterinary personnel by specified amounts, and increasing veterinary staffing levels. There were no outstanding conditional contributions at December 31, 2021.

Bequests are recognized when estates are settled, and the amounts can be reasonably estimated. Bequests on unsettled estates are considered conditional promises to give and therefore are not recognized, because the amounts cannot be reasonably estimated, and the dates of distribution are unknown. Bequests receivable represent those amounts for which both amount and timing of payment is known.

**Contributed goods and services** – Contributions of in-kind (noncash) goods are recorded at their estimated fair value as both support and expense in the period received, which approximates the time when such goods are distributed or placed into service. Contributions of in-kind services that create or enhance nonfinancial assets or that require specialized skills; are provided by individuals possessing those skills; and would typically need to be purchased if not provided by donation, are recorded at their estimated fair value in the period received. Refer to Note 12 for additional disclosures related to in-kind contributions.

In addition, there are a considerable number of volunteers who donate significant amounts of time to the Society. The value of such services, which is substantial, is not included in the accompanying financial statements as it does not meet the criteria for revenue recognition.

**Functional allocation of expenses** – The costs related to various programs and activities are summarized on a functional basis in the accompanying statement of activities. The statements of functional expenses present the natural classification detail of expenses by function.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Salaries and employee benefits and taxes (staffing costs) are allocated based on employees' direct time spent on program or support activities or management's best estimate of time spent. Professional fees, insurance, and miscellaneous expenses are also allocated based on time and effort. Depreciation, occupancy, office supplies and expense, facilities and equipment rental, and travel and automobile are allocated based on square footage. Printing, publishing, postage, communications, and dues and memberships are allocated based on telephone count. Computer expenses are allocated based on computer count in each department. Direct support for animals is allocated by specific identification with a particular program service.

**Advertising** costs in the amount of \$150,457 and \$140,635 for the years ended December 31, 2022, and 2021, respectively, were expensed as incurred.

**Income taxes** – The Society is publicly supported and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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**Recent accounting pronouncement** – The Society adopted Accounting Standards Codification (ASC) 842, *Leases*, using the modified retrospective approach with January 1, 2022, as the date of initial adoption. ASC 842 is intended to improve financial reporting of lease transactions by requiring entities that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing and uncertainty of cash flows arising from leases. For leases existing at the transition date, the Society applied the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. Additionally, the Society applied the practical expedient to use hindsight for the purpose of determining the lease term.

Under the modified retrospective approach, the adoption of ASC 842 did not result in the recognition of an ROU asset or lease liability as of January 1, 2022, and there is no cumulative effect adjustment to net assets at the transition date.

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Society adopted the standard effective January 1, 2022. There was no effect on total net assets for the year ended December 31, 2022. The Society has updated disclosures as necessary (see Note 12).

**Reclassification** – Certain 2021 amounts have been reclassified to conform with the 2022 financial statement presentation.

**Subsequent events** have been reviewed through January 5, 2024, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2022, that require recognition or disclosure in the financial statements.

### 3. PRIOR PERIOD ADJUSTMENT

Net assets without donor restrictions and net assets with donor restrictions at the beginning of 2021 have been adjusted to reclassify 1) a donor-restricted endowment fund that was previously reported as a board designated endowment fund; and 2) the accumulated earnings on beneficial interest in assets held by SRCF which were previously reported as net assets without donor restrictions. The correction has no effect on the results of the current or prior years' activities. The cumulative effect decreased 2021 beginning net assets without donor restrictions and increased 2021 beginning net assets with donor restrictions, respectively, by \$666,764.

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The effect of the restatement on the classification of net assets is as follows:

	December 31, 2021		January 1, 2021	
	As previously reported	<u>Restated</u>	As previously reported	<u>Restated</u>
Net assets without donor restrictions	\$ 27,482,209	\$ 26,815,445	\$ 23,417,493	\$ 22,750,729
Net assets with donor restrictions	597,277	1,264,041	2,399,023	3,065,787

#### 4. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Society's financial assets available within one year of the statement of financial position date for general expenditures are as follows for:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 5,920,005	\$ 10,639,300
Investments	12,601,236	9,274,650
Accounts receivable	131,249	93,015
Contributions and bequests receivable	638,816	42,497
Other receivables	18,656	67,338
Perpetual trust held by others	312,848	372,463
Beneficial interest in assets held by Sacramento Region Community Foundation	10,941	13,853
Total financial assets	<u>19,633,751</u>	<u>20,503,116</u>
Less amounts unavailable for general expenditures within one year, due to:		
Net assets restricted by donors for time or purpose (Note 10)	(1,211,165)	(1,264,041)
Board designated net assets (Note 10)	<u>(7,217,788)</u>	<u>(6,771,186)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 11,204,798</u>	<u>\$ 12,467,889</u>

The Society's goal is generally to maintain financial assets to meet six months of operating expenses. As part of its liquidity plan, excess cash is invested in long and short-term investments according to its investment policy.

Refer to Note 10 for additional information on board designated net assets. Although the Society does not intend to spend from the board-designated net assets, these amounts could be made available for operating expenditures if necessary.

**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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**5. CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following at December 31:

	<u><b>2022</b></u>	<u><b>2021</b></u>
Bequests receivable	\$ 634,242	
Contributions receivable	4,574	\$ 42,569
Less: discount to present value		<u>(72)</u>
Contributions receivable, net	<u>\$ 638,816</u>	<u>\$ 42,497</u>

Contributions receivable are collectible as follows at December 31:

	<u><b>2022</b></u>	<u><b>2021</b></u>
Less than one year	\$ 638,816	\$ 25,975
One to five years		<u>16,522</u>
	<u>\$ 638,816</u>	<u>\$ 42,497</u>

The Society recognizes contributions receivable at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows at the time of the donation. The discount rate used in determining the net present value of the contributions receivable ranged from 0.15% to 0.58% during 2021.

At December 31, 2022, 91% of contributions and bequests receivable was due from one donor.



**SACRAMENTO SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**6. INVESTMENTS**

Investments consist of the following:

	<u>2022</u>	<u>2021</u>
Equity securities:		
Technology	\$ 1,814,661	\$ 1,512,725
Industrials	1,141,457	699,217
Financial services	1,038,561	834,467
Consumer cyclical	600,869	581,292
Communication services	569,749	413,604
Consumer defensive	557,068	109,806
Healthcare	542,774	387,904
Utilities	302,265	139,287
Basic materials	266,197	142,179
Energy	239,554	34,988
Real estate	152,673	8,320
Consumer discretionary	7,445	
Exchange traded funds	2,497,279	3,090,890
Mutual funds – fixed income		814,583
Fixed income:		
US Treasury securities	1,031,420	
Corporate bonds	1,142,713	
Municipal bonds	574,712	
Real estate investment trusts	121,839	78,942
Certificates of deposit		426,446
Total	<u>\$ 12,601,236</u>	<u>\$ 9,274,650</u>

Investment returns (loss) consists of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 268,215	\$ 107,934
Net unrealized and realized gain (loss), net of fees	<u>(1,967,500)</u>	<u>797,249</u>
Total	<u>\$ (1,699,285)</u>	<u>\$ 905,183</u>

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

### 7. FAIR VALUE MEASUREMENTS

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available.

However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability):

Level 1 Inputs            Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 Inputs            Inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs            Unobservable inputs for the asset or liability.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The Society's assets subject to fair value are classified as follows at December 31, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 12,601,236	\$ 10,883,811	\$ 1,717,425	
Beneficial interest in perpetual trust	312,848			\$ 312,848
Beneficial interest in assets held at the Sacramento Region Community Foundation	<u>10,941</u>			<u>10,941</u>
Total	<u>\$ 12,925,025</u>	<u>\$ 10,883,811</u>	<u>\$ 1,717,425</u>	<u>\$ 323,789</u>

The Society's assets subject to fair value are classified as follows at December 31, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 9,274,650	\$ 8,848,204	\$ 426,446	
Beneficial interest in perpetual trust	372,463			\$ 372,463
Beneficial interest in assets held at the Sacramento Region Community Foundation	<u>13,853</u>			<u>13,853</u>
Total	<u>\$ 9,660,966</u>	<u>\$ 8,848,204</u>	<u>\$ 426,446</u>	<u>\$ 386,316</u>

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The Society's investments in equity securities, exchange-traded funds, mutual funds, US Treasury securities, and real estate investment trusts are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Society's investments in corporate and municipal bonds and certificates of deposit are classified within Level 2 of the fair value hierarchy because they are valued using alternative pricing methods using observable information inputs, such as current interest rates.

The Society is the beneficiary of perpetual irrevocable trusts held and administered by San Antonio Area Foundation. Under the terms of the trusts, the Society has the irrevocable right to receive the income earned on trust assets in perpetuity. These assets are not subject to control or direction by the Society. Due to the opacity of the asset valuation and related inputs, the Society's perpetual trust held by others is classified within Level 3 of the fair value hierarchy.

The Society has certain investments held by the Sacramento Region Community Foundation (SRCF). The fair value of the beneficial interest in assets held by SRCF is based on the fair value of fund investments as reported by SRCF. These are considered to be Level 3 measurements.

Changes in the level 3 trust assets for the years ending December 31 consist of:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 386,316	\$ 371,200
Unrealized gain (loss) in fair value	<u>(62,527)</u>	<u>15,116</u>
Ending balance	<u>\$ 323,789</u>	<u>\$ 386,316</u>

### 8. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 12,411,498	\$ 12,284,090
Land and land improvements	1,029,339	1,029,339
Furniture, fixtures and equipment	1,157,412	1,100,977
Vehicles	172,942	187,264
Construction in progress	<u>82,513</u>	<u>1,000</u>
	14,853,704	14,602,670
Less accumulated depreciation	<u>(6,862,586)</u>	<u>(6,407,421)</u>
	<u>\$ 7,991,118</u>	<u>\$ 8,195,249</u>

### 9. LEASE OBLIGATION

The Society leases office equipment under the terms of a noncancellable operating lease that commenced in October 2022 and expires in 2027. This lease agreement does not include any options to extend or early terminate the lease. This lease is included on the statement of financial position as of December 31, 2022 as a ROU asset and operating lease liability of \$23,632. The ROU asset and

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

operating lease liability were calculated using a risk-free discount rate of 3.47%. Lease expense under this lease totaled \$1,347 in 2022. Cash paid for amounts included in the measurement of the operating lease liability totaled \$1,347 for 2022. Payments of the lease liability are as follows:

2023		\$	5,388
2024			5,388
2025			5,388
2026			5,388
2027			<u>4,041</u>
Total lease payments			<u>25,593</u>
Less: present value discount			<u>(1,961)</u>
Total operating lease liability		\$	<u>23,632</u>

Prior to the implementation of ASC 842 in 2022, leases were accounted for in accordance with the previous lease standard, ASC 840. Total rent expense for all operating leases under ASC 840 was \$18,005 for 2021.

### 10. NET ASSETS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2022</u>		<u>2021</u>
Purpose or time restrictions:			
Animal services	\$ 111,335	\$	113,446
General support for future periods			47,942
Spay/Neuter clinic program	106,130		26,426
Capital improvements fund	<u>7,000</u>		<u>27,000</u>
Total restricted for time or purpose	<u>224,465</u>		<u>214,814</u>
Perpetual restrictions:			
LeMaitre Endowed Fund	662,911		662,911
Beneficial interest in perpetual trust	312,848		372,463
Beneficial interest in assets held by SRCF	<u>10,941</u>		<u>13,853</u>
Total restricted in perpetuity	<u>986,700</u>		<u>1,049,227</u>
Total net assets with donor restrictions	<u>\$ 1,211,165</u>	\$	<u>1,264,041</u>

The Society's LeMaitre Endowed Fund consists of assets from one donor, restricted in perpetuity, with the earnings to be used at the discretion of the Chief Executive Officer of the Society, as long as earnings are not used on administrative expenses. As such, the earnings from the original gift are considered to be without donor restriction. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, the Society classifies as net assets with donor restrictions the original value of gifts donated to the perpetual endowment, the original value of subsequent gifts to the perpetual endowment, and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Society, and (7) the Society's investment policies.

Change in endowment net assets are as follows:

	<b><u>Without donor restrictions</u></b>	<b><u>Perpetually restricted</u></b>
<b>Year ended December 31, 2022:</b>		
Endowment net assets, beginning of year	\$ 105,215	\$ 662,911
Investment loss	(155,783)	
Endowment net assets, end of year	<u>\$ (50,568)</u>	<u>\$ 662,911</u>

	<b><u>Without donor restrictions</u></b>	<b><u>Perpetually restricted</u></b>
<b>Year ended December 31, 2021:</b>		
Endowment net assets, beginning of year	\$ 72,552	\$ 662,911
Investment return	51,869	
Endowment expenditures	(19,206)	
Endowment net assets, end of year	<u>\$ 105,215</u>	<u>\$ 662,911</u>

The Society has adopted investment and spending policies, approved by the Board of Directors, for investment assets that attempt to provide a predictable stream of funding to its programs, while also maintaining the purchasing power of those investment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 3%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund, investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The Society has adopted a spending policy for investments in general, which is also applied to its donor-restricted endowment assets. The Society’s policy is to disburse up to 3% annually, at the discretion of the Board of Directors, determined as a percentage of the average quarter-end market value of investments from the previous 12 quarters (three years).

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The LeMaitre Endowment fund has such a deficiency, in the amount of \$50,568, as of December 31, 2022. This deficiency resulted from unfavorable market fluctuations during 2022. The Board of Directors of the Society has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Certain net assets without donor restrictions are designated by the board for the following purposes as of December 31.

	<u>2022</u>	<u>2021</u>
Long-term investment reserve	\$ 4,667,395	\$ 4,220,793
Operating reserve	1,000,000	1,000,000
Emergency reserve	1,000,000	1,000,000
Strategic reserves	50,393	50,393
Deferred maintenance reserve	<u>500,000</u>	<u>500,000</u>
	<u>\$ 7,217,788</u>	<u>\$ 6,771,186</u>

### 11. COMMITMENTS

In 2019, the Society entered into an agreement with a vendor through which the vendor provided several pieces of medical equipment to the Society to use in exchange for the Society to purchase products from the vendor for an aggregate annual minimum purchase amount of \$47,087. The agreement has an initial term of 6 years effective January 2020 and has an automatic renewal for up to 3 one-year periods, unless either party cancels. If the Society fails to spend the annual minimum purchase amount, the vendor may retroactively charge the difference between the amount of actual net spending on purchase of qualifying products during such contract year and the annual minimum purchase amount (the "shortfall"). After 6 years of meeting the annual minimum purchase commitment, the title to the equipment will be transferred to the Society. During the years ended December 31, 2022, and 2021, the Society met the required minimum purchase.

The Society has two contracts with vendors: a pet food vendor and an animal health product vendor. Under these agreements, the Society receives substantial discounts on products in exchange for advertising and promotion. The pet food contract also requires the Society to purchase all its shelter food from this vendor. The discounts given to the Society range from 6% - 74% depending on the product. The terms of these contracts expire in 2024 and 2025.

# SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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### 12. IN-KIND CONTRIBUTIONS

The Society received the following in-kind contributions for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Advertising and design	\$ 128,140	\$ 118,627
Kennel, food and medical supplies	24,917	95,765
Furniture and equipment	13,862	
Event supplies and food	5,915	15,192
Legal	5,807	10,907
Veterinary services		2,850
Other	1,500	4,320
	<u>\$ 180,141</u>	<u>\$ 247,661</u>

The Society receives donated advertising, legal services, kennel, food and medical supplies, furniture and equipment, and supplies and food for fundraising events. All donated items were valued based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor.

The Society's policy related to in-kind contributions is to utilize the assets given to carry out their mission. All in-kind contributions received by the Society for the years ended December 31, 2022 and 2021 were considered without donor restrictions and able to be used by the Society as determined by the Board and management.

### 13. RETIREMENT PLANS

The Society sponsors a Simplified Employee Pension Plan (SEP-IRA) for its eligible employees. Contributions to the plan are made at the discretion of the Society's Board of Directors and are based on a percentage of salary subject to a maximum limit allowable per year under the Internal Revenue Code. The Board of Directors approved a 2% contribution to the plan for the years ended December 31, 2022 and 2021. Accordingly, the Society accrued plan contributions of \$76,688 and \$71,409 at December 31, 2022, and 2021, respectively.

The Society also sponsors 403(b) and 457(b) retirement plans whereby eligible employees can make tax-deferred contributions up to the maximum annual amounts allowed under the Internal Revenue Code.