



**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

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

December 31, 2019 and 2018

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

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the Sacramento Society for the Prevention of Cruelty to Animals (SSPCA) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

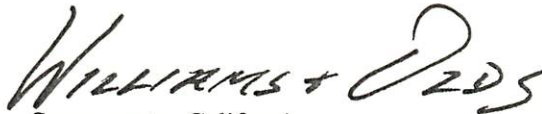
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sacramento Society for the Prevention of Cruelty to Animals as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Sacramento, California
August 3, 2020

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|-----------------------------|
| <i>ASSETS</i> | | |
| Cash and cash equivalents | \$ 4,486,047 | \$ 3,202,387 |
| Investments | 8,810,151 | 6,859,763 |
| Contributions receivable, net | 385,355 | 227,113 |
| Pledges receivable, net | 161,697 | - |
| Accounts receivable | 124,621 | 237,627 |
| Prepaid expenses and other | 72,660 | 96,161 |
| Inventory | 20,101 | 16,387 |
| Land, buildings and equipment, less accumulated depreciation | 6,292,395 | 6,365,757 |
| Perpetual trust held by others | 332,171 | - |
| Beneficial interest in assets held by Sacramento Region Community Foundation | 11,511 | 10,244 |
| TOTAL ASSETS | \$ <u>20,696,709</u> | \$ <u>17,015,439</u> |
| <i>LIABILITIES AND NET ASSETS</i> | | |
| Accounts payable and accrued expenses | \$ <u>658,508</u> | \$ <u>526,129</u> |
| TOTAL LIABILITIES | 658,508 | 526,129 |
| COMMITMENTS | | |
| | - | - |
| NET ASSETS | | |
| Without donor restrictions | 18,999,875 | 16,049,181 |
| With donor restrictions | <u>1,038,326</u> | <u>440,129</u> |
| TOTAL NET ASSETS | <u>20,038,201</u> | <u>16,489,310</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>20,696,709</u> | \$ <u>17,015,439</u> |

See accompanying notes to the financial statements.

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

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2019 and 2018

| | 2019 | | | 2018 | | |
|---|-------------------------------|----------------------------|----------------------|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUE, GAINS, AND OTHER SUPPORT | | | | | | |
| Contributions, bequests and grants | \$ 6,521,026 | \$ 675,673 | \$ 7,196,699 | \$ 4,243,809 | \$ 185,515 | \$ 4,429,324 |
| Program fees | 2,314,936 | - | 2,314,936 | 2,314,501 | - | 2,314,501 |
| Investment return, net | 914,747 | - | 914,747 | (17,495) | - | (17,495) |
| Special events, net of direct expenses of \$190,827 in 2019 and \$223,929 in 2018 | 308,367 | - | 308,367 | 385,534 | - | 385,534 |
| Adoptable goods income, net of direct expenses of \$30,471 in 2019 and \$28,730 in 2018 | 268,339 | - | 268,339 | 311,197 | - | 311,197 |
| Vehicle donation program, net of direct expenses of \$63,489 in 2019 and \$40,879 in 2018 | 118,889 | - | 118,889 | 142,623 | - | 142,623 |
| Gifts in-kind | 124,323 | - | 124,323 | 116,707 | - | 116,707 |
| Gain on sale of land and improvements | - | - | - | 132,421 | - | 132,421 |
| Miscellaneous | 607 | - | 607 | 15,735 | - | 15,735 |
| Net assets released from restrictions | 77,476 | (77,476) | - | 146,194 | (146,194) | - |
| TOTAL REVENUE, GAINS, AND OTHER SUPPORT | 10,648,710 | 598,197 | 11,246,907 | 7,791,226 | 39,321 | 7,830,547 |
| EXPENSES | | | | | | |
| Programs: | | | | | | |
| Spay and neuter clinic | 2,562,163 | - | 2,562,163 | 2,371,755 | - | 2,371,755 |
| Animal services | 2,140,259 | - | 2,140,259 | 2,061,715 | - | 2,061,715 |
| Adoptions | 637,196 | - | 637,196 | 622,857 | - | 622,857 |
| Other | 881,650 | - | 881,650 | 893,177 | - | 893,177 |
| TOTAL PROGRAM EXPENSES | 6,221,268 | - | 6,221,268 | 5,949,504 | - | 5,949,504 |
| Supporting Services: | | | | | | |
| General and administration | 588,936 | - | 588,936 | 462,547 | - | 462,547 |
| Fundraising | 887,812 | - | 887,812 | 905,880 | - | 905,880 |
| TOTAL SUPPORTING SERVICES EXPENSES | 1,476,748 | - | 1,476,748 | 1,368,427 | - | 1,368,427 |
| TOTAL EXPENSES | 7,698,016 | - | 7,698,016 | 7,317,931 | - | 7,317,931 |
| CHANGE IN NET ASSETS | 2,950,694 | 598,197 | 3,548,891 | 473,295 | 39,321 | 512,616 |
| NET ASSETS AT BEGINNING OF YEAR | 16,049,181 | 440,129 | 16,489,310 | 15,575,886 | 400,808 | 15,976,694 |
| NET ASSETS AT END OF YEAR | \$ 18,999,875 | \$ 1,038,326 | \$ 20,038,201 | \$ 16,049,181 | \$ 440,129 | \$ 16,489,310 |

See accompanying notes to the financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2019

| | <u>Program Services</u> | | | | | <u>Supporting Services</u> | | |
|---------------------------------|-----------------------------------|----------------------------|-------------------|-------------------|---------------------|---------------------------------------|--------------------|---------------------|
| | <u>Spay and Neuter Clinic</u> | <u>Animal Services</u> | <u>Adoptions</u> | <u>Other</u> | <u>Total</u> | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
| Salaries | \$ 1,544,235 | \$ 1,034,714 | \$ 294,604 | \$ 607,653 | \$ 3,481,206 | \$ 381,501 | \$ 390,721 | \$ 4,253,428 |
| Employee benefits and taxes | 346,638 | 217,271 | 64,225 | 135,995 | 764,129 | 77,962 | 83,561 | 925,652 |
| Total employee compensation | <u>1,890,873</u> | <u>1,251,985</u> | <u>358,829</u> | <u>743,648</u> | <u>4,245,335</u> | <u>459,463</u> | <u>474,282</u> | <u>5,179,080</u> |
| Direct support for animals | 485,653 | 284,419 | 996 | 2,935 | 774,003 | - | - | 774,003 |
| Depreciation | 34,871 | 243,132 | 116,530 | 17,110 | 411,643 | 14,799 | 11,042 | 437,484 |
| Occupancy | 36,550 | 216,174 | 100,768 | 25,179 | 378,671 | 12,946 | 14,988 | 406,605 |
| Printing, publications, postage | 9,630 | 14,685 | 5,751 | 29,076 | 59,142 | 10,945 | 263,214 | 333,301 |
| Professional fees | 57,410 | 41,844 | 11,354 | 23,093 | 133,701 | 66,548 | 81,188 | 281,437 |
| Computer expense | 11,274 | 12,593 | 4,767 | 10,987 | 39,621 | 9,444 | 22,992 | 72,057 |
| Insurance | 5,233 | 34,579 | 17,486 | 4,473 | 61,771 | 2,221 | 1,657 | 65,649 |
| Office supplies and expense | 9,628 | 12,171 | 6,092 | 3,327 | 31,218 | 774 | 5,776 | 37,768 |
| Communications | 8,369 | 8,795 | 3,622 | 4,759 | 25,545 | 7,243 | 2,797 | 35,585 |
| Facilities and equipment rental | 1,747 | 8,102 | 7,148 | 1,876 | 18,873 | 717 | 464 | 20,054 |
| Dues and memberships | 1,778 | 2,951 | 1,494 | 2,884 | 9,107 | 1,914 | 1,520 | 12,541 |
| Travel and automobile | 3,452 | 7,053 | 1,640 | 3,472 | 15,617 | 494 | 2,499 | 18,610 |
| Miscellaneous | 5,695 | 1,776 | 719 | 8,831 | 17,021 | 1,428 | 5,393 | 23,842 |
| TOTAL EXPENSES | <u>\$ 2,562,163</u> | <u>\$ 2,140,259</u> | <u>\$ 637,196</u> | <u>\$ 881,650</u> | <u>\$ 6,221,268</u> | <u>\$ 588,936</u> | <u>\$ 887,812</u> | <u>\$ 7,698,016</u> |
| PERCENT OF TOTAL | <u>33.3%</u> | <u>27.8%</u> | <u>8.3%</u> | <u>11.5%</u> | <u>80.8%</u> | <u>7.7%</u> | <u>11.5%</u> | <u>100.0%</u> |

See accompanying notes to the financial statements.

**SACRAMENTO SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF FUNCTIONAL EXPENSES**

For The Year Ended December 31, 2018

| | <u>Program Services</u> | | | | | <u>Supporting Services</u> | | |
|---------------------------------|-----------------------------------|----------------------------|-------------------|-------------------|---------------------|---------------------------------------|--------------------|---------------------|
| | <u>Spay and Neuter Clinic</u> | <u>Animal Services</u> | <u>Adoptions</u> | <u>Other</u> | <u>Total</u> | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
| Salaries | \$ 1,457,827 | \$ 954,711 | \$ 284,863 | \$ 616,880 | \$ 3,314,281 | \$ 297,350 | \$ 363,253 | \$ 3,974,884 |
| Employee benefits and taxes | 296,217 | 208,036 | 58,309 | 119,645 | 682,207 | 66,054 | 75,691 | 823,952 |
| Total employee compensation | <u>1,754,044</u> | <u>1,162,747</u> | <u>343,172</u> | <u>736,525</u> | <u>3,996,488</u> | <u>363,404</u> | <u>438,944</u> | <u>4,798,836</u> |
| Direct support for animals | 425,453 | 311,981 | 12,273 | 2,924 | 752,631 | - | - | 752,631 |
| Depreciation | 32,702 | 228,002 | 109,278 | 16,045 | 386,027 | 13,878 | 10,355 | 410,260 |
| Occupancy | 36,873 | 213,057 | 97,485 | 26,721 | 374,136 | 13,706 | 10,306 | 398,148 |
| Printing, publications, postage | 7,629 | 10,614 | 3,831 | 31,953 | 54,027 | 9,193 | 326,284 | 389,504 |
| Professional fees | 69,546 | 53,854 | 15,228 | 35,964 | 174,592 | 28,630 | 44,559 | 247,781 |
| Computer expense | 10,272 | 9,949 | 3,316 | 11,690 | 35,227 | 10,046 | 31,090 | 76,363 |
| Insurance | 4,436 | 29,312 | 14,823 | 3,792 | 52,363 | 7,424 | 1,405 | 61,192 |
| Office supplies and expense | 9,594 | 7,030 | 8,500 | 9,908 | 35,032 | 3,436 | 3,653 | 42,121 |
| Communications | 9,157 | 9,312 | 3,145 | 4,194 | 25,808 | 7,863 | 2,621 | 36,292 |
| Doubtful pledges expense | - | - | - | - | - | - | 25,076 | 25,076 |
| Facilities and equipment rental | 2,276 | 13,648 | 6,369 | 1,378 | 23,671 | 386 | 607 | 24,664 |
| Dues and memberships | 3,355 | 3,557 | 1,514 | 3,536 | 11,962 | 2,711 | 2,754 | 17,427 |
| Travel and automobile | 1,620 | 6,556 | 2,336 | 1,792 | 12,304 | 1,265 | 2,491 | 16,060 |
| Miscellaneous | 4,798 | 2,096 | 1,587 | 6,755 | 15,236 | 605 | 5,735 | 21,576 |
| TOTAL EXPENSES | <u>\$ 2,371,755</u> | <u>\$ 2,061,715</u> | <u>\$ 622,857</u> | <u>\$ 893,177</u> | <u>\$ 5,949,504</u> | <u>\$ 462,547</u> | <u>\$ 905,880</u> | <u>\$ 7,317,931</u> |
| PERCENT OF TOTAL | <u>32.4%</u> | <u>28.2%</u> | <u>8.5%</u> | <u>12.2%</u> | <u>81.3%</u> | <u>6.3%</u> | <u>12.4%</u> | <u>100.0%</u> |

See accompanying notes to the financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 3,548,891 | \$ 512,616 |
| <i>Adjustments to reconcile the change in net assets to net cash provided by operating activities:</i> | | |
| Depreciation | 437,484 | 410,260 |
| Donated assets | (22,912) | (101,064) |
| Gain on disposal of fixed assets | - | (132,421) |
| Unrealized and realized loss (gain) on investments | (792,783) | 95,856 |
| <i>Changes in operating assets and liabilities:</i> | | |
| Contributions receivable | (158,242) | 114,464 |
| Pledges receivable | (161,697) | - |
| Accounts receivable | 113,006 | (5,670) |
| Prepaid expenses and other | 23,501 | (56,295) |
| Inventory | (3,714) | 7,561 |
| Perpetual trust held by others | (332,171) | - |
| Beneficial interest in community foundation | (1,267) | 1,078 |
| Accounts payable and accrued expenses | 132,379 | (186,365) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,782,475 | 660,020 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash paid for capital expenditures | (364,122) | (221,237) |
| Proceeds on sale of fixed assets | - | 260,000 |
| Proceeds from sale of investments | 983,228 | 894,957 |
| Purchases of investments | (2,117,921) | (4,150,600) |
| NET CASH USED IN INVESTING ACTIVITIES | (1,498,815) | (3,216,880) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 1,283,660 | (2,556,860) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,202,387 | 5,759,247 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 4,486,047 | \$ 3,202,387 |

SUPPLEMENTAL INFORMATION:

No cash was paid for interest or income taxes during the years ended December 31, 2019 and 2018

During the year ended December 31, 2019, the Society wrote off \$131,752 of fully depreciated assets that were no longer in use.

See accompanying notes to the financial statements.

SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION

The Sacramento Society for the Prevention of Cruelty to Animals (the Society) was founded in the late 1800s 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 18,100 animals in 2019. Additionally, 38,000 low-cost and no-cost vaccinations were provided to the community, 1,400 animals received low-cost veterinary exams and more than 4,000 sick, injured and homeless animals found new homes through the shelter's adoption facility. An active humane education program reaches over 300 children each year and a dog training program gives advice and training to more than 3,000 adults each year. 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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements of the Society have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Society to report information regarding its financial position and activities according to the following net asset classifications:

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 organization. These net assets may be used at the discretion of the Society's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Society or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations: The Statements of Activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Society's ongoing services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature. There were no nonoperating activities during 2019 and 2018.

Cash and Cash Equivalents: The Society considers all short-term investments, including certificates of deposit, with a maturity of three months or less from the date of purchase to be cash equivalents.

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

NOTES TO FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES – Continued

Receivables: The Society considers grants, pledges and other 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.

Contributions and Contributions Receivable: Contributions are recognized when cash, securities, or other assets, or an unconditional promise to give is received. 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 substantially met. Some grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Assets received with donor-imposed conditions are reported as “Refundable Advances” in the Statement of Financial Position until the conditions have been substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated 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. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of 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.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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.

Fair Value Measurements: The Society applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a fair value hierarchy that prioritizes the information used in developing fair value estimates, and require disclosure of fair value measurements by level within the fair value hierarchy.

SACRAMENTO SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

- Level 1:* Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2:* Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3:* Unobservable inputs reflecting the reporting entity's own assumptions, which require the most judgment.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the valuation methods are appropriate and consistent within the industry, the use of different methodologies or assumption to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investments: The Society carries investments in marketable securities and debt securities at their fair values in the Statement of Financial Position. 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.

Perpetual Trust Held by Others: Perpetual trusts held by others are funds held by outside trustees for the benefit of the Society in accordance with the terms of the irrevocable trusts. These funds are neither in the possession, nor under the control, of the Society. Trust terms provide that the Society is to receive annually a portion of the income earned by the trust assets. The beneficial interests in the trusts are recognized as assets and gift income at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Land, Building, and Equipment: The Society capitalizes all expenditures for property and equipment in excess of \$1,000. Land, buildings, and equipment are stated at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is provided for using the straight-line method over the useful lives of the assets.

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

NOTES TO FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Gifts In-Kind: Contributions of gifts in-kind are recognized as public support and as a corresponding asset or expense at their estimated fair value on the date of the gift. Contributions of donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills, and would be typically be purchased if not provided by donation, are recorded at their fair values in the period received. Such contributions are not recognized if there is any uncertainty about the existence of value or stipulations about ownership of assets.

Gifts in-kind are comprised of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|-------------------|-------------------|
| Kennel, food and medical supplies | \$ 47,802 | \$ 72,607 |
| Veterinary services | 10,800 | 14,400 |
| Advertising and design | 20,277 | 13,113 |
| Legal | 7,704 | 4,703 |
| Computer/software costs | 13,900 | - |
| Furniture and equipment | 7,904 | 5,500 |
| Rental of facilities and equipment | - | 2,064 |
| Construction in progress | 11,616 | - |
| Other | 4,320 | 4,320 |
| | <u>\$ 124,323</u> | <u>\$ 116,707</u> |

In addition, gifts in-kind income and expense of \$11,400 and \$34,030 for the years ended December 31, 2019 and 2018, respectively, were included in net special events income in the Statements of Activities.

The Society receives donated services from a variety of unpaid volunteers for both program and supporting services. No amounts have been recognized in the accompanying Statements of Activities because the criteria for recognition of such volunteer efforts have not been satisfied.

Income Taxes: The Society is 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 for revenue generated from its exempt purpose activities.

Uncertainty in Income Taxes: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Society to report information regarding its exposure to various tax positions taken. The Society has determined whether any tax positions have met the recognition threshold and have measured the exposure to those tax positions. Management believes that the Society has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Society are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

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

NOTES TO FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Advertising: Advertising costs in the amount of \$333,301 and \$389,505, for the years ended December 31, 2019 and 2018, respectively, were expensed as incurred. These expenses are recorded in their respective functional categories.

Functional Allocation of Costs: The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Such allocations are determined by management on an equitable basis. Aside from depreciation expense which is 100% allocated, the remaining expenses below include both direct expenses and a portion of expense that is allocated.

The expenses that are allocated include the following:

| <u>Expense</u> | <u>Method of Allocation</u> |
|---------------------------------|-------------------------------------|
| Employee benefits and taxes | Time and effort |
| Depreciation | Square footage |
| Printing, publications, postage | Telephone count |
| Occupancy | Square footage |
| Professional fees | Time and effort and telephone count |
| Computer expense | Computer count |
| Communications | Telephone count |
| Office supplies and expense | Square footage and Telephone count |
| Facilities and equipment rental | Square footage |
| Travel and automobile | Square footage and telephone count |
| Dues and memberships | Telephone count |
| Miscellaneous | Time and effort |

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

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

New Accounting Pronouncement: In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 effective January 1, 2019 applicable to both contributions received and contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation.

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NOTES TO FINANCIAL STATEMENTS

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

| | 2019 | | 2018 |
|--------------------------------------|-------------|----|-------------|
| Gross contributions receivable | \$ 385,355 | \$ | 237,204 |
| Less: unamortized discount | - | | (10,091) |
| | 385,355 | | 227,113 |
| Less: allowance for doubtful pledges | - | | - |
| Net contributions receivable | \$ 385,355 | \$ | 227,113 |

Gross contributions receivable are collectible as follows at December 31:

| | 2019 | | 2018 |
|-------------------|-------------|----|-------------|
| Within one year | \$ 385,355 | \$ | 28,799 |
| One to five years | - | | 208,405 |
| | \$ 385,355 | \$ | 237,204 |

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. The discount rate used in determining the net present value of the contributions receivable was zero as of December 31, 2019.

During 2000, the Society was named remainder beneficiary to an irrevocable charitable remainder unitrust. Under terms of the split-interest agreement, the lead beneficiaries are to receive the lesser of the trust income or five percent of the net fair market value of the trust assets, payable annually. Additionally, each year, the lead beneficiaries are to receive any excess trust income to the extent that the aggregate amounts paid in prior years were less than the aggregate amounts computed as five percent of the net fair market value of the trust assets on the valuation dates in such prior years. Upon the death of the lead beneficiaries, or by 2020, whichever is sooner, five percent of the assets in the trust will revert to the Society without restrictions. At December 31, 2019, the net present value of the charitable remainder trust receivable amounted to \$208,405. Changes in the value of the receivable have been reported in the statement of activities as an increase (decrease) in net asset with donor restrictions. At December 31, 2019, contribution receivable for the charitable remainder trust has been recognized at fair value.

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NOTES TO FINANCIAL STATEMENTS

NOTE D - PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31:

| | <u>2019</u> |
|--------------------------------------|-------------------|
| Gross pledges | \$ 161,925 |
| Less: allowance for doubtful pledges | - |
| Less: discount to present value | <u>(228)</u> |
| Pledges receivable, net | \$ <u>161,697</u> |

Pledges receivable are collectible as follows at December 31:

| | <u>2019</u> |
|--------------------|-------------------|
| Less than one year | \$ 102,922 |
| One to five years | <u>59,003</u> |
| | \$ <u>161,925</u> |

The Society commenced a campaign during August 2019 to assist in financing facility renovations, which is in the silent phase and has not been announced publicly. The campaign has resulted in pledges that have been received or are expected to be received in cash over several years. These pledges are recorded as contributions with donor restrictions and are released from restrictions as costs of the project are incurred. Pledges are recognized at their estimated fair value.

The Society recognizes pledges receivable at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of the pledges receivable ranges from .17% to 0.34%.

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for investments measured at fair value. There have been no significant changes in the methodologies used during the years ended December 31, 2019 and 2018.

Common stock and exchange-traded funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Registered investment companies: Valued at the daily closing price as reported by the fund. Mutual funds held by the Society are open-end mutual funds that are registered with the Securities Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Society are deemed to be actively traded.

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NOTES TO FINANCIAL STATEMENTS

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

Certificates of deposit: Estimated at cost plus accrued interest which approximates fair value.

Perpetual trust held by others: Fair values are based on information supplied by the trustee.

The following table summarizes the investments at December 31, 2019 based on the inputs used to value them:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------------------|--------------------------|--------------------|----------------------------|
| Common stock | \$ 3,076,639 | \$ - | \$ - | \$ 3,076,639 |
| Registered investment companies | 4,504,407 | - | - | 4,504,407 |
| Exchange-traded funds | 592,950 | - | - | 592,950 |
| Certificates of deposit | <u>-</u> | <u>636,155</u> | <u>-</u> | <u>636,155</u> |
| Total investments | \$ <u>8,173,996</u> | \$ <u>636,155</u> | \$ <u>-</u> | \$ <u>8,810,151</u> |
| Perpetual trust held by others | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 332,171</u> | <u>\$ 332,171</u> |
| Beneficial Interest in Assets Held at the Sacramento Region | | | | |
| Community Foundation | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 11,511</u> | <u>\$ 11,511</u> |

The following table summarizes the investments at December 31, 2018 based on the inputs used to value them:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------------------|--------------------------|--------------------|----------------------------|
| Common stock | \$ 2,316,779 | \$ - | \$ - | \$ 2,316,779 |
| Registered investment companies | 3,108,624 | - | - | 3,108,624 |
| Exchange-traded funds | 588,230 | - | - | 588,230 |
| Certificates of deposit | <u>-</u> | <u>846,130</u> | <u>-</u> | <u>846,130</u> |
| Total investments | \$ <u>6,013,633</u> | \$ <u>846,130</u> | \$ <u>-</u> | \$ <u>6,859,763</u> |
| Beneficial Interest in Assets Held at the Sacramento Region | | | | |
| Community Foundation | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,244</u> | <u>\$ 10,244</u> |

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

NOTES TO FINANCIAL STATEMENTS

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

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. The fair value of the beneficial interest in a trust is recognized as an asset and as a contribution with donor restrictions at the date the trust is established. The Society uses the fair value of trust assets reported by the trustee to record the fair value of the perpetual trust. Trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, exchange-traded and closed-end funds, mutual funds and equity securities. These assets are not subject to control or direction by the Society. Distributions of income from the trust are reported as investment income. Gains and losses, which are not distributed by the trusts, are reflected as the change in value of perpetual trusts held by others in the statements of activities.

The Sacramento Region Community Foundation (the Foundation) is holding assets as an endowed component fund (Fund) for the benefit of the Society. The Society has granted the Foundation variance power which gives the Foundation's Board of Directors the power to use the Fund for other purposes in certain circumstances. The Fund is subject to the Foundation's investment and spending policies which currently result in a spending rate of 4 percent of a rolling 12 quarter average. The Society reports the fair value of the Fund as Beneficial Interest in Assets Held at the Sacramento Region Community Foundation in the statement of financial position and reports distributions received as investment income. Changes in the value of the Fund are reported as gains or losses in the statement of activities.

Changes in the Fund for the year ended December 31 are as follows:

| | <u>2019</u> | <u>2018</u> |
|------------------------------|------------------|------------------|
| Balance at beginning of year | \$ 10,244 | \$ 11,322 |
| Net return of the Fund | 1,805 | (547) |
| Grants | (430) | (420) |
| Administrative fees | (108) | (111) |
| Balance at end of year | <u>\$ 11,511</u> | <u>\$ 10,244</u> |

The beneficial interest in assets held at the Sacramento Region Community Foundation has been valued, as a practical expedient, at the fair value of the Society's share of the Foundation's investment pool as of the measurement date. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which includes private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's investments are composed approximately of 23 percent domestic equities, 24 percent foreign equities, 17 percent fixed income, and 36 percent alternative investments including hedge funds, natural resources, real estate and private equity funds. The beneficial interest in assets held at the Foundation is not redeemable by the Society.

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NOTES TO FINANCIAL STATEMENTS

NOTE F - LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at December 31:

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| Buildings and improvements | \$ 10,295,987 | \$ 10,199,531 |
| Land and land improvements | 1,285,339 | 1,285,339 |
| Furniture, fixtures and equipment | 826,205 | 780,619 |
| Vehicles | 225,285 | 222,160 |
| Construction in progress | 101,862 | 14,659 |
| | 12,734,678 | 12,502,308 |
| Less accumulated depreciation | 6,442,283 | 6,136,551 |
| | \$ 6,292,395 | \$ 6,365,757 |

NOTE G - LINE OF CREDIT

The Society has an express credit line revolving loan with Morgan Stanley for up to 50% of the value of certain eligible investments on deposit with Morgan Stanley (the Society had \$10,803,331 and \$7,076,893 in eligible investments with Morgan Stanley at December 31, 2019 and 2018, respectively). There was no outstanding balance on the credit line at December 31, 2019 and 2018. As of the end of 2019 and 2018, the Society had the ability to borrow as much as \$2,400,341 and \$1,927,000 based upon the underlying investments at a variable interest rate of 5.26% and 6.00%, respectively. The credit line is available as long as the Society has investments deposited with Morgan Stanley. The credit line is secured by all accounts maintained at Morgan Stanley.

NOTE H - COMMITMENTS

During 2019, the Society entered into an agreement with a vendor that provided various equipment for internal use, the equipment was provided in exchange for the Society to purchase products and services from the vendor, for an aggregate annual minimum purchase 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.

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NOTES TO FINANCIAL STATEMENTS

NOTE H – COMMITMENTS - Continued

Operating Leases: The Society leases office equipment under the terms of noncancellable operating leases. Total rental expense under these leases amounted to \$17,988 and \$19,300 during the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments under these agreements are as follows:

| Year ended December 31, | | |
|-------------------------|----|---------------|
| 2020 | \$ | 10,065 |
| 2021 | | 7,601 |
| 2022 | | 3,955 |
| Total | \$ | <u>21,621</u> |

City Contracts: The Society has contracted with three local cities to accept, hold, license, and provide low-cost rabies clinics for animals from these cities and their residents for compensation as defined in the agreements. One agreement was canceled and ended in October 2018. The other two agreements are extended through December 2020.

NOTE I - VEHICLE DONATION PROGRAM

The Society operates a program to solicit, accept and dispose of charitable donations in the form of used automobiles, trucks, trailers, boats and other vehicles. Gross proceeds for the years ended December 31, 2019 and 2018 amounted to \$215,663 and \$183,502, respectively.

NOTE J – NET ASSETS WITHOUT DONOR RESTRICTIONS

Certain net assets without donor restrictions have been board designated for specific purposes. The board designated net assets consist of the following as of December 31.

| | 2019 | 2018 |
|------------------------------|---------------------|---------------------|
| Long-term investment reserve | \$ 2,907,101 | \$ 2,237,926 |
| Capital projects | 1,198,634 | 1,198,634 |
| Operating reserve | 1,000,000 | 1,000,000 |
| Emergency reserve | 1,000,000 | 1,000,000 |
| Deferred maintenance reserve | 500,000 | 500,000 |
| Strategic reserves | 425,299 | 581,265 |
| Dog Park / Columbarium | - | 17,517 |
| | <u>\$ 7,031,034</u> | <u>\$ 6,535,342</u> |

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

NOTES TO FINANCIAL STATEMENTS

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

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

| | 2019 | 2018 |
|--|---------------------|-------------------|
| Subject to the Passage of Time or Expenditure for Specified Purpose: | | |
| General support for future periods | \$ 527,848 | \$ 198,999 |
| Capital improvements fund | 418,246 | 192,536 |
| Outreach programs | 74,723 | 29,416 |
| Dog park | 7,509 | 9,178 |
| Total Subject to the Passage of Time or Expenditure for Specified Purpose | 1,028,326 | 430,129 |
| Subject to Spending Policy and Appropriation: | | |
| Investment in perpetuity (original amount of \$10,000 in 2019 and 2018, respectively), which, once appropriated, is expendable to support: | | |
| Any activities of the organization | 10,000 | 10,000 |
| | 10,000 | 10,000 |
| Total net assets with donor restrictions | \$ 1,038,326 | \$ 440,129 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors:

| | 2019 | 2018 |
|---|------------------|-------------------|
| Purpose Restrictions Accomplished: | | |
| Purchase of a transport van | \$ - | \$ 50,000 |
| Capital campaign improvements | 54,931 | - |
| Spay/Neuter clinic program | - | 29,703 |
| Outreach programs | 20,648 | 1,548 |
| Dog park | 1,669 | 5,505 |
| | 77,248 | 86,756 |
| Time Restrictions Expired: | | |
| Passage of specified time | 228 | 59,438 |
| | 228 | 59,438 |
| Total restrictions released | \$ 77,476 | \$ 146,194 |

**SACRAMENTO SOCIETY FOR THE
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NOTES TO FINANCIAL STATEMENTS

NOTE L - CONCENTRATIONS OF RISK

Financial Instruments: The carrying value of financial instruments such as cash equivalents and marketable securities approximate their fair value. The Society had \$8,810,151 and \$6,859,763 in marketable securities maintained by investment brokerage firms insured by the Security Investment Protection Corporation at December 31, 2019 and 2018, respectively.

The Society maintains its cash in bank accounts which, at times, may exceed the FDIC insured limits. The Society has not experienced losses in any of these accounts and management believes the Society is not exposed to any significant credit risk related to these accounts.

Receivables: Contributions receivable from one of the Society's contributors represents approximately 54% of the total contributions receivable at December 31, 2019. Contributions receivable from two of the Society's contributors represents approximately 94% of the total contributions receivable at December 31, 2018.

NOTE M - RETIREMENT PLANS

During 2007, the Society adopted 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, 2019 and 2018. Accordingly, the Society accrued plan contributions of \$55,591 and \$53,117 at December 31, 2019 and 2018, respectively.

The Society also maintains 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.

NOTE N - AVAILABILITY AND LIQUIDITY

The following represents the Society's financial assets at December 31, 2019 and 2018:

| Financial assets at year-end: | <u>2019</u> | <u>2018</u> |
|---|---------------|---------------|
| Cash and cash equivalents | \$ 4,486,047 | \$ 3,202,387 |
| Investments | 8,810,151 | 6,859,763 |
| Contributions receivable, net | 385,355 | 227,113 |
| Perpetual trust held by others | 332,171 | - |
| Pledges receivable, net | 161,697 | - |
| Accounts receivable | 124,621 | 237,627 |
| Beneficial interest in assets held by Sacramento Region Community Foundation | <u>11,511</u> | <u>10,244</u> |
| Total financial assets | 14,311,553 | 10,537,134 |

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

NOTES TO FINANCIAL STATEMENTS

NOTE N – AVAILABILITY AND LIQUIDITY - Continued

| | | |
|--|---------------------|---------------------|
| Contractual or donor-imposed restrictions: | | |
| Restricted by donor with time or purpose restrictions | 1,028,326 | 440,129 |
| Board designations: | | |
| Amounts set aside for reserves | 2,925,299 | 3,081,265 |
| Quasi-endowment fund, primarily for long-term investing | 2,907,101 | 2,237,926 |
| Amounts set aside for capital projects | <u>1,198,634</u> | <u>1,216,151</u> |
| | <u>8,059,360</u> | <u>6,975,471</u> |
| Financial assets available to meet general expenditures within one year | \$ <u>6,252,193</u> | \$ <u>3,561,663</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.

NOTE O - SUBSEQUENT EVENTS

In preparing the financial statements, the Society has evaluated subsequent events and transactions that occurred after the balance sheet date through August 3, 2020, the date that the financial statements were available to be issued. Management is currently evaluating the impact of the COVID-19 pandemic in the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Society’s financial position and results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.