

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

FINANCIAL STATEMENTS

Year Ended August 31, 2015

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

FINANCIAL STATEMENTS

Year Ended August 31, 2015

TABLE OF CONTENTS

| | <u>Page</u> |
|-------------------------------------|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS: | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 |



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

Independent Auditors' Report

We have audited the accompanying financial statements of Los Angeles Society for the Prevention of Cruelty to Animals (spcaLA), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, and cash flows for the year 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

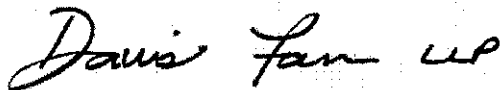
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of spcaLA as of August 31, 2015 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.

Report on Summarized Comparative Information

The financial statements of the Los Angeles Society for the Prevention of Cruelty to Animals for the fiscal year ended August 31, 2014 were audited by other auditors whose report dated January 21, 2015 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

January 21, 2016
Irvine, California

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF FINANCIAL POSITION

August 31, 2015

(with comparative information for 2014)

| | <u>2015</u> | <u>2014</u> |
|--|---------------|-------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (note 2) | \$ 3,256,179 | 945,015 |
| Accounts receivable | 97,001 | 219,806 |
| Inventory | 137,463 | 143,677 |
| Prepaid expenses | 34,271 | 59,092 |
| TOTAL CURRENT ASSETS | 3,524,914 | 1,367,590 |
| NON-CURRENT ASSETS | | |
| Restricted cash (note 2) | 178,582 | 178,582 |
| Investments (note 2) | 20,438,004 | 23,590,369 |
| Deposits | 1,750 | 1,963 |
| Property and equipment, net (note 3) | 8,728,699 | 8,972,683 |
| TOTAL NON-CURRENT ASSETS | 29,347,035 | 32,743,597 |
| TOTAL ASSETS | \$ 32,871,949 | 34,111,187 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 91,496 | 117,582 |
| Accrued liabilities | 346,335 | 362,991 |
| TOTAL CURRENT LIABILITIES | 437,831 | 480,573 |
| NONCURRENT LIABILITIES | | |
| Bonds payable (note 4) | 7,000,000 | 7,000,000 |
| TOTAL NONCURRENT LIABILITIES | 7,000,000 | 7,000,000 |
| TOTAL LIABILITIES | 7,437,831 | 7,480,573 |
| NET ASSETS (note 9) | | |
| Unrestricted | 24,139,315 | 25,306,045 |
| Temporarily restricted | 1,116,221 | 1,145,987 |
| Permanently restricted | 178,582 | 178,582 |
| TOTAL NET ASSETS | 25,434,118 | 26,630,614 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 32,871,949 | 34,111,187 |

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES

Year Ended August 31, 2015

(with comparative information for 2014)

| | Temporarily | | Permanently | Totals | |
|--|---------------------|------------------|----------------|-------------------|-------------------|
| | Unrestricted | Restricted | Restricted | 2015 | 2014 |
| PROGRAM REVENUES | | | | | |
| Animal shelter contracts | \$ 209,124 | - | - | 209,124 | 133,874 |
| Other adoption center charges | 304,533 | - | - | 304,533 | 305,308 |
| Animal placement fee | 352,483 | - | - | 352,483 | 292,666 |
| Animal protection services | 7,944 | - | - | 7,944 | 21,661 |
| Other shelter charges | 444,349 | - | - | 444,349 | 370,561 |
| TOTAL PROGRAM REVENUES | 1,318,433 | - | - | 1,318,433 | 1,124,070 |
| PUBLIC SUPPORT | | | | | |
| Contributions | 2,553,863 | 112,513 | - | 2,666,376 | 2,371,417 |
| Bequests | 2,287,002 | - | - | 2,287,002 | 1,627,513 |
| Special events and other income | 205,300 | - | - | 205,300 | 275,022 |
| TOTAL PUBLIC SUPPORT | 5,046,165 | 112,513 | - | 5,158,678 | 4,273,952 |
| Net assets released from restrictions (note 10): | | | | | |
| Satisfaction of program restrictions | 67,400 | (67,400) | - | - | - |
| Satisfaction of time restrictions | 74,879 | (74,879) | - | - | - |
| Total net assets released from restrictions | 142,279 | (142,279) | - | - | - |
| TOTAL PROGRAM REVENUES AND PUBLIC SUPPORT | 6,506,877 | (29,766) | - | 6,477,111 | 5,398,022 |
| PROGRAM EXPENSE | | | | | |
| Companion animal services | 4,025,424 | - | - | 4,025,424 | 3,548,032 |
| Animal protection services | 559,115 | - | - | 559,115 | 531,299 |
| Education and outreach | 863,857 | - | - | 863,857 | 868,103 |
| Volunteer programs | 71,762 | - | - | 71,762 | 67,165 |
| TOTAL PROGRAM EXPENSES | 5,520,158 | - | - | 5,520,158 | 5,014,599 |
| SUPPORT EXPENSES | | | | | |
| Fundraising | 818,199 | - | - | 818,199 | 670,029 |
| Management and general | 835,482 | - | - | 835,482 | 865,683 |
| TOTAL SUPPORT EXPENSES | 1,653,681 | - | - | 1,653,681 | 1,535,712 |
| TOTAL PROGRAM AND SUPPORT EXPENSES | 7,173,839 | - | - | 7,173,839 | 6,550,311 |
| Excess (deficiency) of program revenues and public support over (under) program and support expenses before investment income (loss) | (666,962) | (29,766) | - | (696,728) | (1,152,289) |
| Nonoperating gains, net - investment income (loss) (note 2) | (499,768) | - | - | (499,768) | 2,906,453 |
| Increase (decrease) in net assets | (1,166,730) | (29,766) | - | (1,196,496) | 1,754,164 |
| NET ASSETS, BEGINNING OF YEAR | 25,306,045 | 1,145,987 | 178,582 | 26,630,614 | 24,876,450 |
| NET ASSETS, END OF YEAR | \$24,139,315 | 1,116,221 | 178,582 | 25,434,118 | 26,630,614 |

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF CASH FLOWS

Year Ended August 31, 2015
(with comparative information for 2014)

| | <u>2015</u> | <u>2014</u> |
|---|-------------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (1,196,496) | 1,754,164 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 356,261 | 333,968 |
| Net realized and unrealized loss (gain) on investments | 829,663 | (2,624,707) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 122,805 | (116,872) |
| (Increase) decrease in inventory | 6,214 | (4,516) |
| (Increase) decrease in prepaid expenses | 24,821 | 59,532 |
| (Increase) decrease in deposits | 213 | 287 |
| Increase (decrease) in accounts payable | (26,086) | (5,515) |
| Increase (decrease) in accrued liabilities | <u>(16,656)</u> | <u>27,764</u> |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | <u>100,739</u> | <u>(575,895)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales or maturities of investments | 11,478,925 | 4,684,335 |
| Purchase of investments | (9,903,917) | (4,295,932) |
| Purchase of property and equipment | <u>(112,277)</u> | <u>(330,944)</u> |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | <u>1,462,731</u> | <u>57,459</u> |
| Net increase (decrease) in cash and cash equivalents | 1,563,470 | (518,436) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>1,692,709</u> | <u>2,211,145</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 3,256,179</u> | <u>1,692,709</u> |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | <u>\$ 102,904</u> | <u>102,678</u> |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Donated Stock | <u>\$ 1,028</u> | <u>1,021</u> |

See accompanying notes to financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

(a) **Nature of Business**

The Los Angeles Society for the Prevention of Cruelty to Animals (spcaLA) is Los Angeles County's preeminent animal welfare organization. Founded on November 16, 1877, spcaLA was the fourth SPCA in the United States and the first organization to promote animal welfare in Southern California. The mission of the Organization is to prevent cruelty to animals through education, law enforcement, intervention and advocacy. Essentially, teaching empathy and respect will break the cycle of violence between animals and humans as well as between humans and humans which will benefit us all. Today, the 137-year old nonprofit stands as a premier ombudsman agency for humane values in Los Angeles County. As an independently chartered organization, it is not affiliated with any other SPCA or humane society. The majority of financial support for the spcaLA is provided by private donations from individuals, corporations, and foundations.

spcaLA operates four major programs which are described below:

I. Companion Animal Services

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

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

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

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

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

Boarding and Grooming The spcaLA Pet Hotel and Grooming Salon provides a secure place for owners to leave their pets while away and promotes pet health through necessary grooming.

II. Animal Protection Services

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

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

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

III. Education and Outreach Services

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

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

Violence Prevention Programs promote awareness of animal abuse as a clearly established predictor of violence toward people. spcaLA's internationally renowned Teaching Love and Compassion (TLC) program guides youth from at-risk communities in training programs in anger management, conflict resolution, and attitudes of respect and responsibility. A modified version of the program is conducted at locations where youth are incarcerated. This program made its international debut in England and is now offered in Canada and Australia as well.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

IV. Volunteer Programs

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

Animal Assisted Therapy Volunteers bring animals to visit with children and adults in hospitals, homeless shelters, and other facilities serving those who are disabled, ill, aged, and confined thus fostering and illustrating the strength and healing value of the human animal bond. They also join children in libraries where the children read to the dogs.

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

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

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

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

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

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

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

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

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

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

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

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

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

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

(b) **Basis of Accounting**

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

(c) **Financial Statement Presentation**

spcaLA follows the financial statement presentation recommended by the Financial Accounting Standards Board (FASB) in its Auditing Standards Codification (ASC) 958-205, Presentation of Financial Statements. Under the ASC 958-205, spcaLA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

(d) **Cash and Cash Equivalents**

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

(e) Investments

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

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

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

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

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

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

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

(e) **Investments (Continued)**

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

(f) **Inventory**

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

(g) **Property and Equipment**

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

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

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

The spcaLA follows ASC 958-605, Revenue Recognition. In accordance with ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

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

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

All support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the "Statement of Activities" as net assets released from restrictions.

(i) **Donated Materials and Services**

Donated materials and other noncash contributions are reflected in the accompanying statements at their estimated market values at the date of donation. The value of donated materials received in 2015 was \$126,357. Around 340 volunteers in 2015 donated a total of 52,801 hours providing non-specialized services for spcaLA's many animal welfare programs, assisting with fund-raising events, and serving as officers and directors. Contributions of services are recognized if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value. The volunteer services of spcaLA do not meet the criteria and are not recognized in the financial statements.

(j) **Income Taxes**

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

ASC Topic 740, Income Taxes, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax positions exist for spcaLA at August 31, 2015.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

(k) **Estimates**

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

(l) **Accrued Liabilities**

A liability is recorded as accrued liabilities for unpaid vacation and sick time since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement. Employees earn between 5 to 20 days beginning with one year of service up to a maximum of six weeks. A liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. Employees earn paid sick leave at a rate of 7 days per year up to 20 days. At the time of separation, 50% of unused sick leave earned will be paid out to the employee regardless of the reason for termination. Therefore, only 50% of unused sick leave is recorded in the financial statements. As of August 31, 2015 \$209,426 has been recorded as accrued liabilities for unpaid vacation and sick time.

(m) **Prior Year Data**

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the society's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

(n) **Subsequent Events**

Management has evaluated subsequent events through January 21, 2016 (the date the financial statements were available to be issued). Management believes no events have occurred subsequent to the statement of financial position date and through January 21, 2016 that would require adjustment to or disclosure in the Society's financial statements.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

(2) Cash, Cash Equivalents and Investments

Cash and Investments held by spcaLA consist of the following at August 31, 2015:

| | |
|--------------------------------|--------------------------|
| Cash and cash equivalents | \$ 3,256,179 |
| Restricted cash | 178,582 |
| Investments | <u>20,438,004</u> |
| Total cash and investments | <u>\$ 23,872,765</u> |

The fair value of investments at August 31, 2015 is:

| | |
|-----------------------------|--------------------------|
| Equity securities | \$ 14,247,098 |
| U.S. Treasury securities | 993,830 |
| Federal agency securities | 1,177,240 |
| Corporate bonds and notes | 2,849,016 |
| Real estate and commodities | 824,214 |
| Alternative investments | <u>346,606</u> |
| Total investments | <u>\$ 20,438,004</u> |

Investment income consists of the following for the year ended August 31, 2015:

| | |
|-----------------------------------|-------------------------|
| Interest and dividend income | \$ 423,616 |
| Net realized gains (losses) | 1,095,409 |
| Net unrealized gains (losses) | (1,925,072) |
| Less: management fees | <u>(93,721)</u> |
| Investment income (loss), net | <u>\$ (499,768)</u> |

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

At August 31, 2015, the fair values of investments based on the fair value hierarchy defined in note 1 are as follows:

| | <u>Fair Value</u> | <u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|------------------------------|----------------------|---|--|--|
| Equity securities and funds: | | | | |
| U.S. Markets | \$ 11,496,161 | 11,496,161 | - | - |
| Developed International | 1,428,166 | 1,428,166 | - | - |
| Emerging Markets | 534,196 | 534,196 | - | - |
| Other | 788,575 | 788,575 | - | - |
| U.S. Treasury securities | 993,830 | 993,830 | - | - |
| Federal agency securities | 1,177,240 | - | 1,177,240 | - |
| Corporate bonds and notes | 2,849,016 | - | 2,849,016 | - |
| Real estate & commodities | 824,214 | 824,214 | - | - |
| Alternative investments | <u>346,606</u> | <u>-</u> | <u>19,671</u> | <u>326,935</u> |
| Total | <u>\$ 20,438,004</u> | <u>16,065,142</u> | <u>4,045,927</u> | <u>326,935</u> |

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

| | <u>Private Equity Fund</u> |
|---|--------------------------------|
| Fair value at the beginning of the year | \$ 401,456 |
| Realized gain from investments | 36,780 |
| Net loss from operations | (2,970) |
| Distributions | (63,316) |
| Change in fair value | <u>(45,015)</u> |
| Fair Value at the end of the year | <u>\$ 326,935</u> |

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

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (if currently eligible)</u> | <u>Redemption Notice Period</u> |
|---------------------|-------------------|---------------------------------|---|---|
| Hedge Fund | \$ 19,671 | \$ - | Quarterly | 60 days |
| Private Equity Fund | <u>326,935</u> | <u>-</u> | Ineligible | - |
| Total | <u>\$ 346,606</u> | <u>\$ -</u> | | |

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

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

Hedge Funds

The Society invests in hedge funds that engage in the trading of various financial instruments and various derivative financial instruments including futures, forwards, swaps, and option contracts. The fund is classified as level 2 based on the net asset value practical expedient.

Private Equity Funds

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

(3) Property and Equipment

Property and equipment consists of the following at August 31, 2015:

| | |
|---|---------------------|
| Land and improvements | \$ 1,029,866 |
| Construction in progress | 26,026 |
| Buildings and improvements | 11,686,478 |
| Furniture, fixtures, and equipment | 719,101 |
| Automobiles and trucks | <u>467,274</u> |
| | 13,928,745 |
| Accumulated depreciation and amortization | <u>(5,200,046)</u> |
| Total | <u>\$ 8,728,699</u> |
| Depreciation expense | <u>\$ 356,261</u> |

(4) Bonds Payable

2002 Variable Rate Demand Revenue Bonds Series A

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

The Bonds mature in July 1, 2033. Only interest payments are due prior to the maturity date. At August 31, 2015, the variable interest rate was .03%. spcaLA may elect to convert the interest payable on the Bonds to a fixed rate of interest. As of August 31,

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

(4) **Bonds Payable (Continued)**

2015 spcaLA has not made such an election. On any business day while interest on the Bonds is payable at the variable rate, any Bonds will be purchased upon demand by the owner at a purchase price equal to 100% of the principal amount of the bonds plus accrued interest.

As additional security for the 2002 Variable Rate Demand Revenue Bonds Series A, spcaLA has been authorized to receive funds under a letter of credit with a bank. The letter of credit will permit spcaLA to draw certain amounts equal to the principal and up to 45 days of interest calculated at the rate of 12% per annum, on the basis of a 365-day year. The letter of credit will be used by the Trustee for interest and/or principal payments. At August 31, 2015, there were no outstanding draws against the letter of credit. As of August 31, 2015, \$6,200,000 of the bonds were outstanding.

2002 Variable Rate Demand Revenue Bonds Series B

In July of 2002, spcaLA sold \$800,000 of 2002 Revenue Bonds Series B. The proceeds were used to finance the acquisition, construction, installation and equipping of various facilities.

The Bonds mature in July 1, 2033. Only interest payments are due prior to the maturity date. At August 31, 2015, the variable interest rate was .14%. spcaLA may elect to convert the interest payable on the Bonds to a fixed rate of interest. As of August 31, 2015 spcaLA has not made such an election. On any business day while interest on the Bonds is payable at the variable rate, any Bonds will be purchased upon demand by the owner at a purchase price equal to 100% of the principal amount of the bonds plus accrued interest.

As additional security for the 2002 Variable Rate Demand Revenue Bonds Series B, spcaLA has been authorized to receive funds under a letter of credit with a bank. The letter of credit will permit spcaLA to draw certain amounts equal to the principal and up to 45 days of interest calculated at the rate of 12% per annum, on the basis of a 365-day year. The letter of credit will be used by the Trustee for interest and/or principal payments. As of August 31, 2015 there were no outstanding draws against the letter of credit. As of August 31, 2015, \$800,000 of the bonds were outstanding.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

(5) Debt Service Requirement to Maturity

The annual requirement to amortize outstanding long-term debt (for which minimum annual debt service requirements have been established) of spcaLA as of August 31, 2015 for the 2002 Variable Rate Demand Revenue Bonds are as follows:

| <u>August 31</u> | <u>Series A*</u> | <u>Series B*</u> | <u>Total</u> |
|-----------------------------|--------------------|------------------|------------------|
| 2016 | 1,860 | 1,120 | 2,980 |
| 2017 | 1,860 | 1,120 | 2,980 |
| 2018 | 1,860 | 1,120 | 2,980 |
| 2019 | 1,860 | 1,120 | 2,980 |
| 2020 | 1,860 | 1,120 | 2,980 |
| Thereafter | <u>6,224,180</u> | <u>814,560</u> | <u>7,038,740</u> |
| Total payments | 6,233,480 | 820,160 | 7,053,640 |
| Less interest | <u>(33,480)</u> | <u>(20,160)</u> | <u>(53,640)</u> |
| Total principal outstanding | <u>\$6,200,000</u> | <u>800,000</u> | <u>7,000,000</u> |

* For determining the debt service requirements for the 2002 Variable Rate Demand Revenue Bonds Series A and B, which carry a variable rate of interest and a straight line interest rate of .03% and .14%, respectively, are used throughout the life of the issue, which is equal to the interest rate on the debt at August 31, 2015.

(6) City of Long Beach Lease Agreement

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

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

(7) Operating Lease Commitment

spcaLA has an operating lease for a truck used to transport materials and supplies. The lease term is 6 years with a fixed monthly rate of \$1,664.

Future minimum rental commitments under the above lease is as follows:

| Year Ending <u>June 30</u> | <u>Amount</u> |
|-------------------------------|------------------|
| 2016 | \$ 19,964 |
| 2017 | 19,964 |
| 2018 | 19,964 |
| 2019 | 19,964 |
| 2020 | <u>19,964</u> |
| Total | <u>\$ 99,820</u> |

Expenses incurred under this lease totaled \$23,464 for the fiscal year ended June 30, 2015.

(8) 401(k) Plan

spcaLA has implemented a 401(k) Plan (Plan) covering substantially all their employees. The Plan is a defined-contribution plan covering all employees of spcaLA who have completed 1,000 hours of service, have a minimum of six months service and are age 18 or older. Employees may also contribute the "catch up" contribution of \$5,500 as allowed by law. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Employer contributions are based on a percentage of covered employees' salaries. Employer contributions for 2015 were \$132,740. Employees are eligible to withhold up to 100% of their compensation plus up to 100% of any employer paid cash bonus, not to exceed \$18,000, to deposit in the Plan fund.

LOS ANGELES SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
Year Ended August 31, 2015

(9) Net Assets

Unrestricted net assets:

| | |
|---|-------------------|
| Invested in spcaLA property and equipment, net of related debt | \$ 1,728,699 |
| Undesignated, available for operations | <u>22,410,616</u> |
| Total unrestricted net assets | <u>24,139,315</u> |

Temporarily restricted net assets:

| | |
|---|------------------|
| Time restrictions: | |
| General support (pledges) | 352 |
| Purpose restrictions: | |
| Animal protective services | 1,100,282 |
| Education and outreach | 11,043 |
| Companion animal services | <u>4,544</u> |
| Total temporarily restricted net assets | <u>1,116,221</u> |

Permanently restricted net assets:

| | |
|---|----------------|
| Restricted for: | |
| spcaLA's endowment account | <u>178,582</u> |
| Total permanently restricted net assets | <u>178,582</u> |

| | |
|------------------|----------------------|
| Total net assets | <u>\$ 25,434,118</u> |
|------------------|----------------------|

(10) Net Assets Released from Restrictions

Satisfaction of program restrictions:

| | |
|--|---------------|
| Companion animal services | \$ 56,357 |
| Education and Outreach | <u>11,043</u> |
| Total satisfaction of program restrictions | <u>67,400</u> |

Satisfaction of time restrictions:

| | |
|---|---------------|
| Time restriction – pledges | <u>74,879</u> |
| Total satisfaction of time restrictions | <u>74,879</u> |

| | |
|---|-------------------|
| Total net assets released from restrictions | <u>\$ 142,279</u> |
|---|-------------------|