



*Report of Independent Auditors and
Financial Statements*

Central California S.P.C.A.

June 30, 2020

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Report of Independent Auditors

To the Board of Directors
Central California S.P.C.A.

Report on the Financial Statements

We have audited the accompanying financial statements of Central California S.P.C.A., which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, 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.

Auditor's 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 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 Central California S.P.C.A. as of June 30, 2020, 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.

Three handwritten signatures in black ink, arranged horizontally. The first signature is the most prominent, followed by two smaller ones.

Fresno, California
February 25, 2021

Financial Statements

Central California S.P.C.A.
Statement of Financial Position
June 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 4,606,798
Investments	4,701,694
Accounts receivable	56,585
Inventory	88,976
Prepaid expenses and other assets	<u>80,174</u>

Total current assets 9,534,227

PROPERTY AND EQUIPMENT, net

2,794,588

Total assets \$ 12,328,815

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 117,494
Accrued expenses and other liabilities	286,054
Current portion of capital lease payable	<u>16,449</u>

Total current liabilities 419,997

NET ASSETS

Without donor restriction	11,686,668
With donor restriction	<u>222,150</u>

Total net assets 11,908,818

Total liabilities and net assets \$ 12,328,815

Central California S.P.C.A.
Statement of Activities and Changes in Net Assets
Year ended June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Program services			
Animal shelter	\$ 452,439	\$ -	\$ 452,439
Special	180,286	-	180,286
Surgery annex	689,880	-	689,880
Government contracts - animal shelter	4,233,703	-	4,233,703
Donations	800,061	71,317	871,378
Investment and dividend income	343,749	-	343,749
Fundraising	18,004	-	18,004
Other	7,769	-	7,769
	6,725,891	71,317	6,797,208
NET ASSETS RELEASED FROM RESTRICTION			
Restrictions satisfied by payment of related expenses	1,121	(1,121)	-
	6,727,012	70,196	6,797,208
EXPENSES			
Program services			
Animal shelter	2,725,730	-	2,725,730
Special	378,894	-	378,894
Surgery annex	478,854	-	478,854
General and administrative	1,499,703	-	1,499,703
Fundraising	168,040	-	168,040
	5,251,221	-	5,251,221
Change in net assets	1,475,791	70,196	1,545,987
NET ASSETS, beginning of year	10,210,877	151,954	10,362,831
NET ASSETS, end of year	\$ 11,686,668	\$ 222,150	\$ 11,908,818

Central California S.P.C.A.
Statement of Functional Expenses
Year ended June 30, 2020

	Program Services			Total Program Services	Supporting Services		Total
	Animal Shelter	Special	Surgery Annex		General and Administrative	Fundraising	
Accounting	\$ -	\$ -	\$ -	\$ -	\$ 94,425	\$ -	\$ 94,425
Advertising	-	-	-	-	93,841	43	93,884
Animal supplies	136,456	49,677	190	186,323	4,482	4,761	195,566
Conferences, conventions, meetings	-	-	-	-	4,045	-	4,045
Depreciation	127,342	16,550	8,845	152,737	41,632	8,239	202,608
Grants to domestic organizations	-	500	-	500	-	-	500
Information technology	-	-	-	-	50,315	-	50,315
Insurance	74,534	7,802	12,913	95,249	95,464	4,018	194,731
Interest	-	-	-	-	1,484	-	1,484
Legal	-	-	-	-	34,398	-	34,398
Medical supplies	92,437	5,772	98,898	197,107	-	-	197,107
Miscellaneous expense	-	-	-	-	949	8,272	9,221
Occupancy	28,534	5,509	-	34,043	232,518	1,840	268,401
Office expenses	14,912	8,415	-	23,327	171,864	192	195,383
Other employee benefits	133,754	27,467	18,976	180,197	87,344	19,793	287,334
Other professional services	676,564	20,128	3,335	700,027	100,037	932	800,996
Payroll taxes	98,871	15,797	24,490	139,158	35,091	8,510	182,759
Pension plan	42,378	7,394	9,058	58,830	20,345	5,177	84,352
Salaries	1,196,370	213,448	302,149	1,711,967	431,469	106,263	2,249,699
Travel	97,934	-	-	97,934	-	-	97,934
Uniforms	5,644	435	-	6,079	-	-	6,079
	<u>\$ 2,725,730</u>	<u>\$ 378,894</u>	<u>\$ 478,854</u>	<u>\$ 3,583,478</u>	<u>\$ 1,499,703</u>	<u>\$ 168,040</u>	<u>\$ 5,251,221</u>

Central California S.P.C.A.
Statement of Cash Flows
Year ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,545,987
Adjustment to reconcile change in net assets to net cash from operating activities	
Depreciation	202,608
Bad debt expense	1,280
Net realized and unrealized gain on investments	(217,146)
Bond amortization	4,825
Change in operating assets and liabilities	
Accounts receivable	(45,312)
Inventory	777
Prepaid expenses	20,376
Accounts payable	29,571
Accrued expenses and other liabilities	(18,486)
	<u>1,524,480</u>
Net cash from operating activities	<u>1,524,480</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(202,992)
Purchase of marketable securities	(634,246)
Proceeds from sale of marketable securities	60,021
	<u>(777,217)</u>
Net cash from investing activities	<u>(777,217)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on capital lease payable	(17,013)
	<u>730,250</u>
Net change in cash and cash equivalents	<u>730,250</u>

CASH AND CASH EQUIVALENTS, beginning of year 3,876,548

CASH AND CASH EQUIVALENTS, end of year \$ 4,606,798

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest	\$ 1,484

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business – The Central California Society for the Prevention of Cruelty to Animals (S.P.C.A.), (the Organization), a California Corporation, was organized in August 1946, and operates in Fresno County to protect the welfare of all animals. The Organization’s primary sources of revenue are a contract with the City of Fresno, animal sales, and spay/neuter fees. Animal protection services include providing shelter for lost pets and strays, rescuing animals living under cruel and inhumane conditions, and placing healthy animals up for adoption. The gift shop and grooming parlor serves the general public, and net proceeds from this facility are used to support the operations of the animal shelter. The education department provides educational presentations to all age groups, both on site and at agency/school/club/organization locations by appointment. The Organization will provide tours and education resource information, as well as provide and staff information booths by appointment. The stray animals’ building was built to accommodate a further requirement (SB1785) to hold stray animals for longer periods of time.

Method of accounting – The Organization uses the accrual basis method of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently implemented pronouncement – On June 21, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update clarify and improve the scope and the accounting guidance for contributions received and contributions made, and should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The Organization adopted ASU 2018-08 for the year ended June 30, 2020. The adoption of this update had no significant impact on the financial statements.

Revenue recognition – Contributions and unconditional grants are recognized as support and revenues when they are received or unconditionally pledged. These contributions are shown as restricted support and revenues if they are subject to time or donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is accomplished, or both; however, contributions and grants with donor restrictions are reported as support and revenues without donor restrictions if the restriction is met in the same year that the gift is received.

Conditional contributions are not recorded as support and revenues until the conditions are met. Payments classified as exchange transactions (reciprocal transfers between two entities in which goods and services of equal value is exchanged) are not recorded as other support and revenue until allowable expenditures are incurred.

Central California S.P.C.A. Notes to Financial Statements

Revenues earned from contracts with the City of Fresno and local agencies are considered to be exchange transactions because revenue is not earned until services have been performed and eligibility requirements have been met. Revenue from exchange contracts are reported gross of any related expenses in the accompanying financial statements.

Classification of net assets – Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without donor restriction – Net assets not subject to use or time restrictions. A portion of these net assets may be designated by the Board of Directors for specific purposes.

With donor restriction – Defined as that portion of net assets that consist of a restriction on the specific use or the occurrence of a certain future event. Net assets with donor restriction represent amounts collected by the Organization to be utilized for specific purposes, such as their wellness and medical assistance program, for use toward specific types of animals, and for use toward facility upgrades and maintenance. Net assets with donor restriction at June 30, 2020, totaled \$222,150. Net assets released from restriction during the year ended June 30, 2020, totaled \$1,121.

Cash and cash equivalents – For purposes of reporting the statement of cash flows, the Organization considers cash accounts, money market funds, and certificates of deposit with original maturities of three months or less to be cash equivalents.

Investments in marketable securities – Investments in marketable securities consist primarily of publicly traded mutual funds, common stock, and bonds and are recorded at fair value. These investments are covered by the Securities Investor Protection Corporation up to \$500,000 (including \$250,000 of cash). Investment income and unrealized gains and losses are reported on the statement of activities.

Concentration of credit risk – Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2020, the Organization had approximately \$3,811,000 of uninsured cash balances. Management has not experienced any losses on those deposits and believes it is not exposed to any significant credit risk.

During the year ended June 30, 2020, the City of Fresno contract accounted for approximately 61% of the Organization's total revenue.

Inventory – Inventory for the animal shelter, grooming parlor, and pet supplies is stated at the lower of cost or net realizable value, determined on an average cost basis. Inventory consists of animal food, veterinary supplies, animal control supplies, and miscellaneous supplies.

Property and equipment – It is the Organization's policy to capitalize property and equipment acquisitions over \$2,000. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Expenditures for major renewals and betterments that extend the useful lives of the related assets are capitalized. Expenditures for repairs and maintenance, including planned major maintenance activities, are charged to operations when incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	7 to 39 years
Machinery and equipment	5 to 15 years
Office equipment	3 to 7 years
Vehicles	5 years

Long-lived assets – Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment losses were recognized during the year ended June 30, 2020.

In-kind contributions – Contributions of noncash assets utilized by the Organization in providing services are recorded at their fair values in the period received. Contributions of noncash assets received for fundraising events (such as catering, entertainment, etc.) are not recorded in the accompanying financial statements. In addition, contributions of noncash assets to be sold at fundraising events by the Organization are recorded at the time of sale. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

A number of unpaid volunteers have made significant contributions of their time to the Organization. However, the value of these services is not reflected in the accompanying financial statements because generally accepted accounting principles do not allow for the recognition of nonspecialized services.

Advertising– Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. For the year ended June 30, 2020, advertising costs were \$93,884; no costs were capitalized.

Allocation of expenses – Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated on the basis of estimates of time and effort are compensation and benefits, depreciation, and insurance. All other expenses are allocated on the basis of usage.

Income taxes – The Organization is a tax-exempt corporation under section 501(c)(3) of the Internal Revenue Code and section 23701(d) of the State of California Corporate Code. The Organization is subject to taxation on any unrelated business income.

Uncertain tax positions – The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Organization does not believe its statement of financial position includes any uncertain tax positions.

Central California S.P.C.A.

Notes to Financial Statements

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

The Organization has evaluated subsequent events through February 25, 2021, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30, 2020:

Cash, checking, and savings	\$ 4,583,656
Money market funds	<u>23,142</u>
Total	<u>\$ 4,606,798</u>

NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities consisted of the following at June 30, 2020:

Equities and options	\$ 2,059,903
Mutual funds	1,114,230
Corporate bonds	1,346,060
Government and municipal bonds	<u>181,501</u>
Total	<u>\$ 4,701,694</u>

During the year ended June 30, 2020, interest and dividend income was \$126,603 and net realized and unrealized gain on investments was \$217,146.

NOTE 4 – FAIR VALUE MEASUREMENTS

The Organization’s investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 3 inputs were available to the Organization. The three levels of the fair value of hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation techniques used for assets measured at fair value. There have been no changes in the techniques used at June 30, 2020.

Equities and options – Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds – Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded. Mutual funds held by the Organization are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission.

Corporate, government, and municipal bonds – Valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximized observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Central California S.P.C.A.
Notes to Financial Statements

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of June 30, 2020:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities and options	\$ 2,059,903	\$ -	\$ -	\$ 2,059,903
Mutual funds	1,114,230	-	-	1,114,230
Corporate bonds	-	1,346,060	-	1,346,060
Government and municipal bonds	-	181,501	-	181,501
Total assets at fair value	<u>\$ 3,174,133</u>	<u>\$ 1,527,561</u>	<u>\$ -</u>	<u>\$ 4,701,694</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2020:

Land	\$ 27,420
Building and improvements	6,201,643
Equipment	405,729
Automobiles and trucks	787,985
Construction in progress	118,955
	<u>7,541,732</u>
Less: accumulated depreciation	<u>(4,747,144)</u>
	<u>\$ 2,794,588</u>

The Organization incurred depreciation expense of \$202,608 for the year ended June 30, 2020.

NOTE 6 – OBLIGATIONS UNDER OPERATING LEASES

The Organization has two noncancellable operating leases for office equipment that expire June 30, 2021, and August 1, 2022. Equipment lease expense was \$9,178 for the year ended June 30, 2020.

Future annual minimum lease payments on the leases are as follows:

<u>Year ending June 30,</u>	
2021	\$ 8,901
2022	7,102
2023	<u>1,184</u>
	<u>\$ 17,187</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30, 2020:

Pet adoption project	\$ 112,110
Wellness/medical assistance	89,990
Building campaign	12,670
Cat purvillion	4,880
Animal care	2,500
	<hr/>
	\$ 222,150
	<hr/> <hr/>

NOTE 8 – RETIREMENT PLAN

The Organization has adopted a defined contribution 401(k) plan covering eligible employees. Active employees who are at least 21 years of age and have completed two years of service are eligible to participate. Under the plan, the Organization matches 100% of the employee’s first 5% of salary deferral. The total matching contribution expense for the year ended June 30, 2020, was \$84,353.

NOTE 9 – CONTINGENCIES AND UNCERTAINTIES

State and local grants – The Organization’s grants and contracts are subject to inspection and audit by the appropriate governmental agency. The purpose is to determine whether the program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from those governmental audits, cannot be reasonably estimated and, accordingly, the Organization has no provision for the possible disallowance of program costs recorded in the financial statements.

Impact from coronavirus outbreak – The World Health Organization declared the novel coronavirus outbreak a public health emergency. The Organization’s operations are located in California, which has issued shelter-in-place restrictions and restricted gatherings of people due to the coronavirus outbreak. Given the dynamic nature of these circumstances and business disruption, the Organization anticipates a significant short-term impact. The Organization will continue to monitor the situation closely, but given the uncertainty of the situation, an estimate of the impact to the financial statements cannot be made at this time.

Central California S.P.C.A.

Notes to Financial Statements

NOTE 10 – LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Organization's financial assets as of June 30, 2020, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

Financial assets available to meet cash needs for general expenditures within one year are as follows at June 30, 2020:

Financial assets	
Cash and cash equivalents	\$ 4,606,798
Investments	4,701,694
Accounts receivable	<u>56,585</u>
Financial assets, at June 30, 2020	9,365,077
Less those unavailable for general expenditure within one year:	
Donor-restricted net assets with restrictions not expected to be met within one year	<u>(116,990)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,248,087</u>

The Organization has a policy to maintain financial assets to meet 90 to 180 days of operating expenses. As part of the Organization's liquidity plan, excess cash is invested in short-term investments including money market accounts, equities, and bonds. The Organization has certain donor-restricted net assets that are available for general expenditures within one year because the restriction on the net assets are expected to be met by conducting the normal activities of the programs in the coming year.

