

SPCA INTERNATIONAL, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

SPCA INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
SPCA International, Inc.
New York, New York

Opinion

We have audited the accompanying financial statements of SPCA International, Inc., which comprise the statements of financial position at December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPCA International, Inc. at December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SPCA International, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, SPCA International, Inc. changed its accounting policy related to its recording of leases whereby it is recognizing a right-of-use asset and a lease liability for all lease agreements with a term greater than 12 months. The policy was adopted retrospectively effective January 1, 2022 with the cumulative effect of initially applying the policy recognized as of the date of application. Our opinion is not modified with respect to this matter.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SPCA International, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SPCA International, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SPCA International, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
May 4, 2023

SPCA INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 6,078,706	\$ 5,499,296
Accounts receivable	284,358	549,465
Prepaid expenses and other assets	132,808	159,146
Operating lease right-of-use assets (Note 8)	402,263	-
Property and equipment, net	<u>12,653</u>	<u>11,442</u>
 TOTAL ASSETS	 <u>\$ 6,910,788</u>	 <u>\$ 6,219,349</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 813,426	\$ 1,195,508
Operating lease liability (Note 8)	<u>409,060</u>	<u>-</u>
 TOTAL LIABILITIES	 <u>1,222,486</u>	 <u>1,195,508</u>
 COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Without donor restrictions	5,244,541	4,475,358
With donor restrictions (Note 5)	<u>443,761</u>	<u>548,483</u>
 TOTAL NET ASSETS	 <u>5,688,302</u>	 <u>5,023,841</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,910,788</u>	 <u>\$ 6,219,349</u>

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

SPCA INTERNATIONAL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions and grants	\$ 13,613,560	\$ 2,557,161	\$ 16,170,721	\$ 15,638,315	\$ 2,123,459	\$ 17,761,774
In-kind contributions	9,776,788	-	9,776,788	9,043,368	-	9,043,368
Bequests and legacies	1,736,080	-	1,736,080	2,959,960	-	2,959,960
Other income	11,942	-	11,942	2,364	-	2,364
Net assets released from restrictions	2,661,883	(2,661,883)	-	2,248,205	(2,248,205)	-
Total Support and Revenue	27,800,253	(104,722)	27,695,531	29,892,212	(124,746)	29,767,466
EXPENSES:						
Program services	18,259,489	-	18,259,489	16,761,777	-	16,761,777
Supporting services:						
Management and general	916,100	-	916,100	869,581	-	869,581
Fundraising	7,854,438	-	7,854,438	8,207,243	-	8,207,243
Total Expenses	27,030,027	-	27,030,027	25,838,601	-	25,838,601
CHANGE IN NET ASSETS	770,226	(104,722)	665,504	4,053,611	(124,746)	3,928,865
NET ASSETS, BEGINNING OF YEAR	4,475,358	548,483	5,023,841	421,747	673,229	1,094,976
CHANGE IN ACCOUNTING PRINCIPLE - ASC 842	(1,043)	-	(1,043)	-	-	-
NET ASSETS, END OF YEAR	\$ 5,244,541	\$ 443,761	\$ 5,688,302	\$ 4,475,358	\$ 548,483	\$ 5,023,841

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

SPCA INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Payroll	\$ 302,157	\$ 214,241	\$ 320,272	\$ 836,670
Payroll taxes and benefits	52,715	37,377	55,876	145,968
Program expenses and supplies	924,091	-	-	924,091
In-kind donation - veterinary supply aid	9,298,721	-	-	9,298,721
In-kind donation - marketing	-	-	478,067	478,067
Marketing and media costs	4,732,373	-	6,999,644	11,732,017
Shipping and processing costs	618,095	-	-	618,095
Professional fees	274,367	229,120	-	503,487
OMP grants	285,750	-	-	285,750
Shelter grants	1,475,897	-	-	1,475,897
Travel and transportation	91,738	38,655	-	130,393
Office and other expenses	25,661	161,457	-	187,118
Bank fees	106,693	158,197	-	264,890
Occupancy	43,320	64,980	-	108,300
Operational expenses	9,528	11,204	-	20,732
Depreciation and amortization	4,343	869	579	5,791
Insurance	14,040	-	-	14,040
TOTAL EXPENSES	\$ 18,259,489	\$ 916,100	\$ 7,854,438	\$ 27,030,027

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

SPCA INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Payroll	\$ 217,560	\$ 205,722	\$ 219,457	\$ 642,739
Payroll taxes and benefits	37,994	35,927	38,325	112,246
Program expenses and supplies	453,556	-	-	453,556
In-kind donation - veterinary supply aid	8,565,733	-	-	8,565,733
In-kind donation - marketing	-	-	477,635	477,635
Marketing and media costs	4,978,009	-	7,466,739	12,444,748
Shipping and processing costs	510,055	-	-	510,055
Professional fees	294,683	262,862	3,773	561,318
OMP grants	283,750	-	-	283,750
Shelter grants	1,208,936	-	-	1,208,936
Travel and transportation	24,987	4,404	-	29,391
Office and other expenses	50,007	116,571	-	166,578
Bank fees	84,414	198,851	-	283,265
Occupancy	27,583	41,375	-	68,958
Operational expenses	2,420	1,897	-	4,317
Depreciation and amortization	9,857	1,972	1,314	13,143
Insurance	12,233	-	-	12,233
TOTAL EXPENSES	\$ 16,761,777	\$ 869,581	\$ 8,207,243	\$ 25,838,601

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

SPCA INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 665,504	\$ 3,928,865
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	5,791	13,143
Amortization of operating lease expense	101,972	-
Forgiveness of debt - Paycheck Protection Program	-	(112,500)
(Increase) decrease in assets:		
Accounts receivable	265,107	(252,688)
Prepaid expenses and other assets	26,338	20,942
Decrease in liabilities:		
Accounts payable and accrued expenses	(382,082)	(314,522)
Operating lease liabilities	(96,218)	-
	586,412	3,283,240
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,002)	(2,382)
	(7,002)	(2,382)
NET CASH USED IN INVESTING ACTIVITIES		
NET CHANGE IN CASH AND CASH EQUIVALENTS	579,410	3,280,858
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,499,296	2,218,438
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,078,706	\$ 5,499,296
SUPPLEMENTAL NON-CASH FINANCING ACTIVITIES:		
Operating lease right-of-use assets - implementation of ASC 842	\$ 504,235	\$ -
Operating lease liabilities - implementation of ASC 842	\$ 505,278	\$ -

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

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Organization

SPCA International, Inc. (the "SPCAI") is a not-for-profit organization incorporated in the State of Delaware in May 2006. The SPCAI's purpose is to advance the safety and well-being of animals through education, outreach programs, and to support animal shelters in need. The primary sources of support are contributions and grants, in-kind contributions, and bequests and legacies. The SPCAI is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Operation Military Pets

The SPCAI has helped military families' pets through the Operation Military Pets program since 2013. When military families are ordered to a new base in the U.S. or around the world, moving bills can be substantial. The military pays for many moving costs, but does not help relocate beloved pets. The cost for pet transportation can be significant. Military families are being torn apart due to financial constraints. All over the U.S., animal shelters near military bases report high surrender rates when military families cannot afford to relocate their dogs or cats. To help keep military families together and animals out of shelters, Operation Military Pets provides financial assistance to military families for pet relocation costs. Total expenses for the years ended December 31, 2022 and 2021 were \$285,750 and \$283,750, respectively.

Operation Baghdad Pups Worldwide

U.S. troops deployed around the world befriend local animals as a way to cope with the emotional hardships they endure every day far from home and loved ones. These animals, often called military mascots or patriot pets, not only help our heroes while stationed overseas, but also help them readjust to life when they return home. This highly successful and celebrated program has been reuniting U.S. service members with their companions since 2008. Operation Baghdad Pups provides veterinary care and coordinates complicated logistics and transportation requirements in order to reunite these beloved pets with their service men and women back in the U.S. Total expenses for the years ended December 31, 2022 and 2021 were \$1,124,853 and \$967,610, respectively.

Shelter and Emergency Grants

The SPCAI gives direct support by awarding shelter grants to many animal organizations in need of assistance throughout the U.S. and all over the world. These much-needed funds go toward helping many shelters improve their facilities, fund basic needs, support spay and neuter initiatives, and ultimately reduce euthanasia rates. Animal shelters always try to plan for an influx of animals, an emergency situation or an unforeseen expense, but many times organizations become overwhelmed. In light of this, the SPCAI also distributes emergency grants to shelters when they need it the most, in urgent crisis situations. Total expenses for the years ended December 31, 2022 and 2021 were \$2,914,230 and \$2,062,900, respectively.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Organization (cont'd.)

Shelter and Emergency Grants (cont'd.)

Mission Possible

The SPCAI and its partners successfully evacuated 154 dogs and 131 cats from Afghanistan to Vancouver, Canada, after almost six months of effort, under Mission Possible. The animals were rescued by Kabul Small Animal Rescue and other organizations and were stranded in Afghanistan following the U.S. military withdrawal on August 31, 2021. The animals arrived via a chartered plane at Vancouver International Airport on February 1, 2022, and were housed in a temporary shelter, awaiting adoption or reunification with their owners. Several local Canadian rescues offered support and resources to help the animals find their forever homes.

The evacuation mission faced several challenges, including the high risk of rabies and the volatile situation in Afghanistan. However, the SPCAI and its partners worked tirelessly to overcome these obstacles and ensure the safe transport and ongoing care of the animals. Included in total shelter and emergency expenses for the year are \$699,334 of grant awards provided to Mission Possible during 2022.

Global Animal Veterinary Assistance

Each year, the SPCAI distributes critical veterinary medical supplies to animal shelters throughout the world. As a result, organizations in developing countries have been able to treat more sick and injured animals. These donations, along with financial grants, have allowed organizations to provide successful spay and neuter events throughout the year. Through this program, the SPCAI has distributed millions of dollars in veterinary medical supplies to shelters on almost every continent. Total expenses for the years ended December 31, 2022 and 2021 were \$9,298,721 and \$8,565,733, respectively.

Education Programs

The SPCAI's education outreach reaches hundreds of thousands of pet parents and animal activists every year. Both online and through other media resources, the SPCAI serves as an information and referral resource for animal lovers throughout the world. Skilled staff research questions, find answers, offer advice and connect those requesting assistance. Every year, the SPCAI provides support and help to thousands of individuals in need of animal assistance. The SPCAI's educational programs reduce animal suffering and abuse by raising awareness and facilitating action among like-minded advocates. Total expenses for the years ended December 31, 2022 and 2021 were \$4,635,935 and \$4,881,784, respectively.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies

Changes in Accounting Policies

ASU No. 2016-02

As of January 1, 2022, the SPCAI adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASC 842”). This ASU requires all lessees to recognize a right-of-use asset for the underlying leased asset and a lease liability for the corresponding lease liability for all lease agreements with a term greater than 12 months, initially measured at the present value of the lease payments. It also requires that initial direct costs (incremental costs of a lease that would not have been incurred if the lease had not been obtained) be assessed and added to the right-of-use asset and be included in its subsequent amortization.

In accordance with ASC 842, the modified retrospective method was applied to all lease agreements in effect at January 1, 2022. Under the modified retrospective method, the cumulative effect of applying the standard is recognized at the date of initial application. As a result of adopting ASC 842 effective January 1, 2022, the SPCAI recorded right-of-use assets and lease liabilities of \$504,235 and \$505,278, respectively, and a \$(1,043) reduction to beginning net assets.

As of January 1, 2022 (the implementation date of ASC 842), right-of-use assets and the corresponding lease liabilities were recognized based on the present value of lease payments as of the application date over the remaining life of the lease term. Thereafter, right-of-use assets and the corresponding lease liabilities will be recognized as of the lease commencement date based on the present value of lease payments over the life of the lease term. To determine the present value of lease payments, the SPCAI must use the rate implicit in the lease if it is readily determinable; otherwise, the SPCAI may use either (a) a borrowing rate based on similar debt or (b) the practical expedient option provided by ASC 842, which allows an entity to use a risk-free rate for each class of underlying asset for a period comparable to the lease term to discount the lease payments to present value. The SPCAI considers the lease term to be the non-cancellable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease, if the SPCAI is reasonably certain to exercise the option, (2) terminate the lease, if the SPCAI is reasonably certain not to exercise that option, and (3) extend or not to terminate the lease, in which exercise of the option is controlled by the lessor. The SPCAI has elected to use the practical expedient provided by ASC 842 to determine the present value of its lease payments. The SPCAI’s right-of-use assets and lease liabilities relate to office space.

The SPCAI has also utilized the following practical expedients:

- Short-term leases – for leases that are for a period of 12 months or less, the SPCAI will not apply the recognition requirements of ASC 842.
- For leases that contain related non-lease components, such as maintenance, the SPCAI will account for these payments as a single lease component.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Changes in Accounting Policies (cont'd.)

ASU No. 2016-02 (cont'd.)

In addition, the SPCAI has utilized transitional practical expedients as follows:

- As of January 1, 2022, the SPCAI has not reassessed –
 - Whether any expired or existing contracts are or contain leases;
 - The lease classification for any expired or existing leases; and
 - Initial direct costs related to any expired or existing leases.

Leases are classified as either finance or operating leases. For operating leases, the lease liability is initially and subsequently measured at the present value of the future payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and is subsequently measured similar to financed purchases, with interest expense recorded in connection with the lease liability. The classification between operating and finance leases determines whether lease expenses are recognized based on an effective interest method or on a straight-line basis, respectively, over the term of the lease.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred and less any incentives received. Right-of-use assets under finance leases are amortized on a straight-line basis over the lease term. Right-of-use assets for operating and finance leases are periodically reduced by impairment losses.

The SPCAI monitors for events or changes that could require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment will be made to the carrying amount of the corresponding right-of-use asset unless doing so would reduce the carrying amount of the right-of-use asset to an amount less than zero.

ASU No. 2020-07

Effective January 1, 2022, the SPCAI adopted the provisions FASB ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets a nonprofit has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of enhanced disclosure.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with initial maturities, when acquired, of three months or less.

Property and Equipment

Property and equipment is recorded at cost. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the useful life of the improvement utilizing the straight-line method. Repairs and maintenance are charged to expense in the period incurred. Contributions of donated property and equipment are recorded at their fair values in the period received. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation and amortization of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Website	5 to 7 years
Office equipment	2 to 5 years
Automobile	6 years
Leasehold improvements	5 years

Net Assets

Net assets without donor restrictions include funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose.

SPCA INTERNATIONAL, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions

Contributions are provided to the SPCAI either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts - with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<u>Nature of Gift</u>	<u>Value Recognized</u>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the SPCAI overcoming a donor-imposed barrier to be entitled to the funds.	Not recognized until the gift becomes unconditional, i.e., the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift - cash and other assets	Fair value
Received at date of gift - property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-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.

Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (cont'd.)

In-Kind Contributions

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of services are recognized if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

The SPCAI donates veterinary medications and supplies through its Global Animal Veterinary Assistance Program, which provides critical aid to animals in shelters. These medications and supplies are distributed worldwide and are an integral part of the SPCAI's commitment and efforts to fulfill its mission. The SPCAI has contracted with an organization to administer this program, including the procurement, shipping and delivery of these supplies. The organization also provides the fair value of the donation at the date the supplies are shipped, based on the average of three valuation values for warehouse acquisition costs and average wholesale price. The SPCAI received in-kind donations totaling \$9,776,788 and \$9,043,368 for the years ended December 31, 2022 and 2021, respectively. The amounts are directly charged by function on the statements of functional expenses.

Bequests and Legacies

Bequests and legacies are recognized in the period received, as there is no certainty as to the amount and the length of time or the value of the corpus of the deceased donor's estate. Currently, the SPCAI is the named beneficiary of various legacies, but due to either a specific event, such as the passing of the donor, or the estate not being adjudicated and approved by a court for distribution, the funds or the bequest have not been recognized by the SPCAI in the current year financial statements.

Marketing and Media Costs

Marketing and media costs are expensed as incurred. Marketing and media costs approximated \$12,210,000 and \$12,922,000 for the years ended December 31, 2022 and 2021, respectively.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the SPCAI. Those expenses include program administration, including staff and consultant time, marketing and media, and fundraising. Program administration is based on the ratio value of program expenses and staff and consultant time spent on program administration and supporting services. Marketing and media and fundraising are based on the percentage of materials created attributable to program information and calls to action. Careful vetting, multiple bid procedures, and best practice policies are used by the SPCAI to identify, negotiate, and contract all vendors and services, including, but not limited to, supplies, transportation, direct mail, delivery, and others.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Accounting for Uncertainty in Income Taxes

The SPCAI has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. The SPCAI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The SPCAI believes it is no longer subject to income tax examinations for years prior to 2021.

Allocated Joint Costs

The SPCAI conducted activities that included requests for contributions as well as program components and incurred joint costs. These activities included Operation Baghdad Pups and Shelter and Emergency Grants. Joint costs were allocated between program services and fundraising as follows:

	<u>2022</u>	<u>2021</u>
Program services	\$ 4,732,373	\$ 4,978,009
Fundraising	6,999,644	7,466,739
	<u>\$ 11,732,017</u>	<u>\$ 12,444,748</u>

Note 3 - Concentration of Credit Risk

The SPCAI maintains cash balances in several financial institutions. Such balances are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per institution. From time to time, the SPCAI's balances may exceed these limits.

Note 4 - Property and Equipment

Property and equipment, net, at December 31, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Website	\$ 9,550	\$ 140,688
Office equipment	28,330	46,687
Leasehold improvements	-	41,142
	<u>37,880</u>	<u>228,517</u>
Less: Accumulated depreciation and amortization	<u>25,227</u>	<u>217,075</u>
Property and equipment, net	<u>\$ 12,653</u>	<u>\$ 11,442</u>

For the years ended December 31, 2022 and 2021, depreciation and amortization expense was \$5,791 and \$13,143, respectively.

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Note 5 - Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Military Program	\$ 184,070	\$ 268,970
Shelter Program	259,691	279,513
	\$ 443,761	\$ 548,483

Net assets with donor restrictions were released from restrictions in 2022 and 2021 by incurring expenses satisfying the following:

	<u>2022</u>	<u>2021</u>
Military Program	\$ 896,969	\$ 909,036
Shelter Program	1,764,914	1,339,169
	\$ 2,661,883	\$ 2,248,205

Note 6 - Refundable Advance

In May 2020, the SPCAI received proceeds of \$112,500 from a financial institution under the Paycheck Protection Program (“PPP”), established by the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, administered by the Small Business Administration (“SBA”) with support from the Department of the Treasury. Under the terms of CARES and the PPP, the SPCAI can apply for and be granted forgiveness for all or a portion of the proceeds issued to the extent the proceeds are used in accordance with the PPP. During April 2021, the SPCAI received full forgiveness by the SBA, for which the amount is recognized as contributions and grants on the statements of activities.

Note 7 - Commitments

Fundraising

In October 2006, the SPCAI entered into a 10-year agreement with a direct mail service provider (“DM”) to administer its fundraising and marketing activities. Services covered under this agreement include the production of direct mail awareness and educational materials, organization development, and processing of cash receipts. In addition, the DM incurred startup costs on behalf of the SPCAI. The SPCAI is obligated to reimburse the DM for all costs incurred on behalf of the SPCAI. As of May 31, 2018, the contract is self-renewing for one-year terms barring cancellation of the contract by either party.

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Note 8 - Lease Commitments

The SPCAI's right-of-use assets and lease liabilities relate to office space.

Lease components in the SPCAI's leases are accounted for following the guidance in ASC 842 for the capitalization of long-term leases. At December 31, 2022, the lease liability is equal to the present value of the remaining lease payments, discounted using the U.S. Treasury rate constant maturity at each lease commencement date.

Lease activity for the year ended December 31, 2022 was as follows:

Lease cost:

Operating lease cost	\$ 101,972
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Other information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 96,218
Weighted-average remaining lease term - operating lease	4.00 years
Weighted-average discount rate - operating lease	1.20%

Future minimum lease payments at December 31, 2022 are as follows:

<u>Years Ending December 31:</u>	<u>Operating Leases</u>
2023	\$ 104,809
2024	107,953
2025	111,192
2026	94,965
Total minimum lease payments	418,919
Less: Amount representing interest	9,859
Present value of future payments	409,060
Less: Current lease liabilities	100,449
Long-term lease liabilities	\$ 308,611

Note 9 - Related Party Transactions

One family member of a director of the SPCAI's Board of Directors works for the organization. The compensation and fringe benefits totaled \$138,236 and \$95,886 for the years ended December 31, 2022 and 2021, respectively.

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Note 10 - Available Resources and Liquidity

The SPCAI regularly monitors liquidity required to meet its operating needs and other contractual commitments. The following reflects the SPCAI's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 6,078,706	\$ 5,499,296
Accounts receivable	284,358	549,465
Total financial assets	6,363,064	6,048,761
Less: Donor restrictions for specific purposes	443,761	548,483
Financial assets available to meet cash needs for general expenditures within one year	\$ 5,919,303	\$ 5,500,278

Note 11 - Retirement Plan

The SPCAI sponsors a SIMPLE IRA retirement plan. All employees are eligible to make pre-tax salary contributions after six months of service up to regulatory limits. Employees that are over the age of 18, have completed six months of service, and work 30 hours per week are eligible for employer matching contributions of 3%. Contributions for the years ended December 31, 2022 and 2021 were \$16,835 and \$14,031, respectively.

Note 12 - Subsequent Events

The SPCAI has evaluated all events or transactions that occurred after December 31, 2022 through May 4, 2023, the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.