

SPCA INTERNATIONAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

SPCA INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of SPCA International, Inc., which comprise the statements of financial position at December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 SPCA International, Inc. at December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, SPCA International, Inc. adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-18. Our opinion is not modified with respect to this matter.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
July 29, 2020

SPCA INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,471,623	\$ 1,020,511
Accounts receivable	257,516	53,883
Prepaid expenses and other assets	77,091	57,129
Property and equipment, net (Note 4)	<u>21,925</u>	<u>34,986</u>
 TOTAL ASSETS	 <u>\$ 1,828,155</u>	 <u>\$ 1,166,509</u>
 <u>LIABILITIES AND NET DEFICIT</u>		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 2,497,071</u>	<u>\$ 1,224,537</u>
 TOTAL LIABILITIES	 <u>2,497,071</u>	 <u>1,224,537</u>
Net assets (deficit):		
Without donor restrictions	(1,351,675)	(322,896)
With donor restrictions (Note 6)	<u>682,759</u>	<u>264,868</u>
 TOTAL NET DEFICIT	 <u>(668,916)</u>	 <u>(58,028)</u>
 TOTAL LIABILITIES AND NET DEFICIT	 <u>\$ 1,828,155</u>	 <u>\$ 1,166,509</u>

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

SPCA INTERNATIONAL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions and grants	\$ 11,044,245	\$ 2,032,023	\$ 13,076,268	\$ 8,286,266	\$ 1,358,357	\$ 9,644,623
In-kind contributions (Note 5)	8,131,143	-	8,131,143	8,018,935	-	8,018,935
Bequests and legacies	516,522	-	516,522	360,916	-	360,916
Other income	5,093	-	5,093	7,994	-	7,994
Net assets released from restrictions	1,614,132	(1,614,132)	-	1,277,256	(1,277,256)	-
Total Support and Revenue	21,311,135	417,891	21,729,026	17,951,367	81,101	18,032,468
EXPENSES:						
Program services	14,393,250	-	14,393,250	12,228,067	-	12,228,067
Supporting services:						
Management and general	715,793	-	715,793	525,318	-	525,318
Fundraising	7,230,871	-	7,230,871	5,077,942	-	5,077,942
Total Expenses	22,339,914	-	22,339,914	17,831,327	-	17,831,327
CHANGE IN NET ASSETS	(1,028,779)	417,891	(610,888)	120,040	81,101	201,141
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(322,896)	264,868	(58,028)	(442,936)	183,767	(259,169)
NET ASSETS (DEFICIT), END OF YEAR	\$ (1,351,675)	\$ 682,759	\$ (668,916)	\$ (322,896)	\$ 264,868	\$ (58,028)

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

SPCA INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll	\$ 183,214	\$ 139,874	\$ 163,366	\$ 486,454
Payroll taxes and benefits	40,070	30,591	35,729	106,390
Program expenses and supplies	363,152	-	-	363,152
In-kind donation - veterinary supply aid	7,659,852	-	-	7,659,852
In-kind donation - marketing	-	-	471,291	471,291
Marketing and media costs	4,309,847	-	6,559,179	10,869,026
Shipping and processing costs	354,815	-	-	354,815
Professional fees	139,580	207,443	-	347,023
OMP grants	273,465	-	-	273,465
Shelter grants	760,964	-	-	760,964
Travel and transportation	184,931	40,010	-	224,941
Office and other expenses	8,184	131,880	-	140,064
Bank fees	45,424	115,454	-	160,878
Occupancy	27,165	40,747	-	67,912
Operational expenses	20,337	7,834	-	28,171
Depreciation and amortization	9,795	1,960	1,306	13,061
Insurance	12,455	-	-	12,455
Total Expenses	<u>\$ 14,393,250</u>	<u>\$ 715,793</u>	<u>\$ 7,230,871</u>	<u>\$ 22,339,914</u>

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

SPCA INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll	\$ 161,968	\$ 124,137	\$ 143,294	\$ 429,399
Payroll taxes and benefits	32,823	25,157	29,039	87,019
Program expenses and supplies	269,748	-	-	269,748
In-kind donation - veterinary supply aid	7,548,581	-	-	7,548,581
In-kind donation - marketing	-	-	470,354	470,354
Marketing and media costs	2,743,419	-	4,421,326	7,164,745
Shipping and processing costs	382,723	-	-	382,723
Professional fees	133,815	148,320	-	282,135
OMP grants	240,229	-	-	240,229
Shelter grants	425,200	-	-	425,200
Travel and transportation	159,564	3,792	-	163,356
Office and other expenses	28,784	95,774	-	124,558
Bank fees	44,641	88,210	-	132,851
Occupancy	25,329	37,994	-	63,323
Operational expenses	14,086	-	12,639	26,725
Depreciation and amortization	9,671	1,934	1,290	12,895
Insurance	7,486	-	-	7,486
	<u>\$ 12,228,067</u>	<u>\$ 525,318</u>	<u>\$ 5,077,942</u>	<u>\$ 17,831,327</u>
Total Expenses	<u>\$ 12,228,067</u>	<u>\$ 525,318</u>	<u>\$ 5,077,942</u>	<u>\$ 17,831,327</u>

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

SPCA INTERNATIONAL, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (610,888)	\$ 201,141
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	13,061	12,895
Changes in assets (increase) decrease:		
Accounts receivable	(203,633)	23,739
Prepaid expenses and other assets	(19,962)	(16,444)
Changes in liabilities increase (decrease) :		
Accounts payable and accrued expenses	<u>1,272,534</u>	<u>(205,656)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>451,112</u>	 <u>15,675</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>-</u>	<u>(5,056)</u>
 NET CASH USED IN INVESTING ACTIVITIES	 <u>-</u>	 <u>(5,056)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 451,112	 10,619
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>1,020,511</u>	 <u>1,009,892</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 1,471,623</u>	 <u>\$ 1,020,511</u>

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

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 they do not help relocate their 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, 2019 and 2018 were \$273,465 and \$240,229, 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 facility, fund basic needs, support spay and neuter initiatives and ultimately reducing 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, 2019 and 2018 were \$1,225,549 and \$970,468, respectively.

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, 2019 and 2018 were \$7,659,852 and \$7,548,581, 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, 2019 and 2018 were \$924,537 and \$725,370, respectively.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

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, 2019 and 2018 were \$4,309,847 and \$2,743,419, respectively.

Management's Plans and Intentions and Consideration of Ability to Continue as a Going Concern

At December 31, 2019, the SPCAI had a net working capital deficit of approximately \$669,000. The SPCAI is currently implementing various initiatives, including revenue enhancement and evaluating plans to reduce operating costs, as well as attempting to renegotiate with its professional fundraiser for reduction in direct mailing costs, new program initiatives and the negotiation of the repayment of the obligation to the professional fundraiser. This is anticipated to result in increased revenues and a reduction in costs. It is believed that these plans will allow the SPCAI to achieve and maintain profitability and improve financial stability.

Management has a feasible and attainable three-year plan that projects revenue will exceed expenses within that timeframe if not sooner.

Note 2 - Summary of Significant Accounting Policies

Adoption of FASB ASU No. 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*

Effective January 1, 2019, SPCAI adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08") on a modified prospective basis. This ASU provides for guidance to assist the SPCAI in evaluating the transfer of assets and the nature of the related transactions. The SPCAI considers whether a contribution is either conditional based on whether an agreement includes a barrier that must be overcome and a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both indicates that the recipient is not entitled to the transferred assets or a future transfer of assets until it has overcome any barriers in the agreement.

The adoption of this ASU resulted in changes in the presentation of the financial statements and the related disclosures in the notes to the financial statements.

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").

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

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.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting the SPCAI's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At December 31, 2019 and 2018, the fair value of the SPCAI's financial instruments, including cash and cash equivalents, accounts receivable, other assets, and accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

At December 31, 2019 and 2018, the SPCAI does not have assets or liabilities required to be measured at fair value in accordance with FASB Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement*.

Cash and Cash Equivalents

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

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

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.

Support and Revenue

The SPCAI reports gifts of cash, other assets and long-lived assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. In the absence of donor specification that income on donated funds is restricted, such income is reported as revenues of net assets without donor restrictions.

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:

SPCA INTERNATIONAL, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

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

Contributions (cont'd.)

<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>i.e.</i> , 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.

Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

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.

SPCA INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

In-Kind Contributions (cont'd.)

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. For the years ended December 31, 2019 and 2018, the SPCAI recognized approximately \$7.6 million and \$7.5 million of in-kind donations for medications and supplies, respectively.

The SPCAI received donated marketing and media costs of approximately \$471,000 and \$470,000 for the years ended December 31, 2019 and 2018, respectively.

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. For the years ended December 31, 2019 and 2018, the SPCAI recorded donor bequests and legacies of approximately \$517,000 and \$361,000, respectively. 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 \$10.9 million and \$7.1 million for the years ended December 31, 2019 and 2018, 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.

SPCA INTERNATIONAL, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

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

Accounting for Uncertainty in Income Taxes

The SPCAI applies the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and 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 prior to 2016.

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>2019</u>	<u>2018</u>
Program services	\$ 4,309,847	\$ 2,743,419
Fundraising	6,559,179	4,421,326
	<u>\$ 10,869,026</u>	<u>\$ 7,164,745</u>

New Accounting Pronouncements

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board (“IASB”) to increase transparency and the comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards (“IFRS”). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede FASB ASC Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022, based on the decision in ASU No. 2020-05 to defer the implementation dates. Early application is permitted for all entities.

The SPCAI has not yet determined if this ASU will have a material effect on its financial statements.

SPCA INTERNATIONAL, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

Note 3 - Concentration of Credit Risk

The SPCAI maintains cash balances in several financial institutions which 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, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Website	\$ 131,138	\$ 131,138
Office equipment	39,844	39,844
Leasehold improvements	41,142	41,142
Automobile	34,849	34,849
	<u>246,973</u>	<u>246,973</u>
Less: Accumulated depreciation and amortization	225,048	211,987
Property and equipment, net	<u>\$ 21,925</u>	<u>\$ 34,986</u>

For the years ended December 31, 2019 and 2018, depreciation and amortization expense was \$13,061 and \$12,895, respectively.

Note 5 - In-Kind Contributions

Contributed service and goods are recorded at their estimated fair value. In-kind contributions consisted of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Shelter program support - medical supplies	\$ 7,659,852	\$ 7,548,581
Marketing and media costs	471,291	470,354
	<u>\$ 8,131,143</u>	<u>\$ 8,018,935</u>

Note 6 - Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Military Program	\$ 478,293	\$ 81,153
Shelter Program	204,466	183,715
	<u>\$ 682,759</u>	<u>\$ 264,868</u>

SPCA INTERNATIONAL, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

Note 6 - Net Assets with Donor Restrictions (cont'd.)

Net assets with donor restrictions were released from restrictions in 2019 and 2018 by incurring expenses satisfying the following:

	<u>2019</u>	<u>2018</u>
Military Program	\$ 736,612	\$ 663,724
Shelter Program	877,520	613,532
	<u>\$ 1,614,132</u>	<u>\$ 1,277,256</u>

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.

Rental

In September 2016, the SPCAI entered into a rental agreement for office space in New York City, NY. The lease agreement expires on December 31, 2021. In addition, the SPCAI subsequently entered into a rental agreement for office space in Seattle, WA, in May 2019. The lease agreement expires on April 30, 2021. The future minimum lease payments are as follows:

Years Ending December 31:

2020	\$	78,044
2021		69,777
		<u>\$ 147,821</u>

For the years ended December 31, 2019 and 2018, rent expense was approximately \$71,000 and \$59,000, respectively.

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Note 8 - 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, 2019 and 2018, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,471,623	\$ 1,020,511
Accounts receivable	257,516	53,883
Current assets, excluding non-financial assets	1,729,139	1,074,394
Less: Donor restrictions for specific purposes	682,759	264,868
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,046,380	\$ 809,526

Note 9 - Retirement Plan

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 of 3%. Contributions for 2019 were \$11,631.

Note 10 - Subsequent Events

The SPCAI has evaluated all events or transactions that occurred after December 31, 2019 through July 29, 2020, the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure, except as noted below:

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact contribution income and collections of receivables. Other financial impact could occur, though such potential impact is unknown at this time.