

York County Society For The Prevention Of Cruelty To Animals

**Financial Statements And
Independent Auditors' Report**

December 31, 2018 And 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
York County Society for the Prevention
of Cruelty to Animals

Report on the Financial Statements

We have audited the accompanying financial statements of the York County Society for the Prevention of Cruelty to Animals (SPCA), which comprise the Statements of Financial Position as of December 31, 2018 and 2017, and the related Statements of Activities, Functional Expenses by Natural Classification, Changes in Net Assets, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

INDEPENDENT AUDITORS' REPORT - continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the York County Society for the Prevention of Cruelty to Animals (SPCA) as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Stambaugh Ness, Inc.

York, Pennsylvania
October 22, 2019

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2018	2017
CURRENT ASSETS		
Cash	\$ 244,361	\$ 176,539
Pledges receivable	84,727	52,659
Investment income receivable	4,123	4,181
Other receivables	620	1,961
Inventory	14,693	14,723
Prepaid insurance	18,009	11,059
	366,533	261,122
 OTHER ASSETS		
Property and equipment, net	3,337,995	3,432,892
Investments	2,581,279	2,925,089
Interest in net assets of a community foundation	32,040	36,272
Beneficial interest in perpetual and remainder trusts	1,310,122	1,521,635
	7,261,436	7,915,888
Total assets	\$7,627,969	\$8,177,010

See accompanying notes.

LIABILITIES AND NET ASSETS

	December 31,	
	2018	2017
CURRENT LIABILITIES		
Line of credit	\$ -	\$ 95,000
Accounts payable	42,686	56,142
Accrued payroll	35,295	37,689
Payroll taxes withheld and accrued	10,307	12,212
Accrued expenses	775	1,070
Current portion of note payable	121,462	118,254
Current portion of capital lease obligation	6,923	6,586
Deferred municipality and membership revenue	31,152	32,261
Total current liabilities	248,600	359,214
NONCURRENT LIABILITIES		
Capital lease obligation, net of current portion	25,042	31,965
Note payable, net of current portion	618,497	745,240
Total other liabilities	643,539	777,205
Total liabilities	892,139	1,136,419
NET ASSETS		
Without donor restrictions	5,063,490	5,165,380
With donor restrictions	1,672,340	1,875,211
Total net assets	6,735,830	7,040,591
Total liabilities and net assets	\$ 7,627,969	\$ 8,177,010

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Totals</u>
SUPPORT AND REVENUE			
Contributions	\$ 692,439	\$ 32,068	\$ 724,507
Bequests	273,317	-	273,317
Grant income	100,000	-	100,000
Program fees	516,242	-	516,242
Low cost spay/neuter income	403,850	-	403,850
Income from municipalities	350,102	-	350,102
Special events, net of expenses of \$17,913	64,163	-	64,163
Interest and dividends, net of fees	47,415	-	47,415
Memorials and trusts	61,483	-	61,483
In-kind contributions	13,892	-	13,892
Second chance	-	47,417	47,417
Miscellaneous income	16,606	-	16,606
Sale of pet supplies, net of expenses of \$11,163	13,650	-	13,650
Gain on sale of investments	8,391	-	8,391
Net assets released from restrictions	<u>102,316</u>	<u>(102,316)</u>	<u>-</u>
Total support and revenue	2,663,866	(22,831)	2,641,035
EXPENSES			
Program services	2,032,148	-	2,032,148
Supporting services:			
Management and general	375,757	-	375,757
Fundraising	<u>75,100</u>	<u>-</u>	<u>75,100</u>
Total expenses	<u>2,483,005</u>	<u>-</u>	<u>2,483,005</u>
Support and revenue over expenses	180,861	(22,831)	158,030
Change in value of perpetual and remainder trusts	-	(180,040)	(180,040)
Change in interest in net assets of Community Foundation	(4,232)	-	(4,232)
Unrealized holding loss on investments	<u>(278,519)</u>	<u>-</u>	<u>(278,519)</u>
CHANGES IN NET ASSETS	<u>\$ (101,890)</u>	<u>\$ (202,871)</u>	<u>\$ (304,761)</u>

See accompanying notes.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Totals</u>
SUPPORT AND REVENUE			
Contributions	\$ 674,027	\$ 69,602	\$ 743,629
Bequests	519,005	13,408	532,413
Grant income	100,250	-	100,250
Program fees	597,598	-	597,598
Low cost spay/neuter income	355,885	-	355,885
Income from municipalities	349,796	-	349,796
Special events, net of expenses of \$16,597	57,921	-	57,921
Interest and dividends, net of fees	44,520	-	44,520
Memorials and trusts	57,594	-	57,594
In-kind contributions	18,257	-	18,257
Second chance	10,483	22,223	32,706
Miscellaneous income	9,262	-	9,262
Sale of pet supplies, net of expenses of \$8,337	19,282	-	19,282
Gain on sale of investments	55,553	-	55,553
Gain on sale of property and equipment	591	-	591
Net assets released from restrictions	<u>28,085</u>	<u>(28,085)</u>	<u>-</u>
Total support and revenue	2,898,109	77,148	2,975,257
EXPENSES			
Program services	2,394,902	-	2,394,902
Supporting services:			
Management and general	419,282	-	419,282
Fundraising	<u>79,682</u>	<u>-</u>	<u>79,682</u>
Total expenses	<u>2,893,866</u>	<u>-</u>	<u>2,893,866</u>
Support and revenue over expenses	4,243	77,148	81,391
Change in value of perpetual and remainder trusts	-	17,205	17,205
Change in interest in net assets of Community Foundation	2,945	-	2,945
Unrealized holding gain on investments	<u>266,126</u>	<u>-</u>	<u>266,126</u>
CHANGES IN NET ASSETS	<u>\$ 273,314</u>	<u>\$ 94,353</u>	<u>\$ 367,667</u>

See accompanying notes.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF FUNCTIONAL EXPENSES BY NATURAL CLASSIFICATION
YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 1,015,571	\$ 169,262	\$ 24,180	\$ 1,209,013
Animal maintenance	542,216	-	-	542,216
Depreciation	123,621	21,814	-	145,435
Payroll taxes	87,815	14,636	2,091	104,542
Insurance - group	81,358	13,560	1,937	96,855
Insurance - general	29,948	29,948	-	59,896
Utilities	49,467	8,730	-	58,197
Miscellaneous	19,146	19,145	-	38,291
Information technology support	15,956	15,956	-	31,912
Interest	-	29,266	-	29,266
Newsletter	-	-	28,578	28,578
Retirement	19,951	3,325	475	23,751
Professional fees	-	22,388	-	22,388
Repairs and maintenance	21,242	-	-	21,242
Dues, subscriptions, and publications	-	9,192	9,192	18,384
Office expenses	-	8,398	8,398	16,796
Telephone	10,461	1,743	249	12,453
Second chance expenses	-	-	-	-
Auto expenses	7,434	826	-	8,260
Licenses and permits	-	7,568	-	7,568
Spay/neuter	5,528	-	-	5,528
Uniforms	2,036	-	-	2,036
Education	398	-	-	398
	<u>\$ 2,032,148</u>	<u>\$ 375,757</u>	<u>\$ 75,100</u>	<u>\$ 2,483,005</u>

See accompanying notes.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF FUNCTIONAL EXPENSES BY NATURAL CLASSIFICATION
YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 1,089,089	\$ 181,515	\$ 25,931	\$ 1,296,535
Animal maintenance	758,668	-	-	758,668
Depreciation	123,001	21,705	-	144,706
Payroll taxes	96,313	16,052	2,293	114,658
Insurance - group	110,317	18,386	2,627	131,330
Insurance - general	31,598	31,598	-	63,196
Utilities	55,070	9,718	-	64,788
Miscellaneous	27,523	27,523	-	55,046
Information technology support	19,557	19,556	-	39,113
Interest	-	38,049	-	38,049
Newsletter	-	-	28,313	28,313
Retirement	21,434	3,572	510	25,516
Professional fees	-	18,788	-	18,788
Repairs and maintenance	19,023	-	-	19,023
Dues, subscriptions, and publications	-	9,909	9,909	19,818
Office expenses	-	9,855	9,854	19,709
Telephone	10,270	1,712	245	12,227
Second chance expenses	10,483	-	-	10,483
Auto expenses	9,139	1,015	-	10,154
Licenses and permits	-	8,484	-	8,484
Spay/neuter	8,302	-	-	8,302
Uniforms	1,588	-	-	1,588
Education	1,325	-	-	1,325
Adoption expenses	2,202	-	-	2,202
Advertising	-	1,845	-	1,845
	<u>\$ 2,394,902</u>	<u>\$ 419,282</u>	<u>\$ 79,682</u>	<u>\$ 2,893,866</u>

See accompanying notes.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Totals</u>
NET ASSETS			
JANUARY 1, 2017	\$ 4,892,066	\$ 1,780,858	\$ 6,672,924
Changes in net assets	<u>273,314</u>	<u>94,353</u>	<u>367,667</u>
NET ASSETS			
DECEMBER 31, 2017	5,165,380	1,875,211	7,040,591
Changes in net assets	<u>(101,890)</u>	<u>(202,871)</u>	<u>(304,761)</u>
NET ASSETS			
DECEMBER 31, 2018	<u>\$ 5,063,490</u>	<u>\$ 1,672,340</u>	<u>\$ 6,735,830</u>

See accompanying notes.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (304,761)	\$ 367,667
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Restricted contributions - property and equipment	(15,000)	-
Depreciation	145,435	144,706
Amortization of loan origination fees	3,193	3,193
Change in present value discount of pledges receivable	-	(749)
(Gain) loss on sale of property and equipment	-	(591)
(Gain) loss on sale of investments	(8,391)	(55,553)
In-kind contribution - contributed stock	-	(4,379)
In-kind contribution - capital lease payments	(6,586)	(4,212)
Proceeds from sale of donated securities	-	4,379
Change in value of interest in net assets of Community Foundation	4,232	(2,945)
Change in value of perpetual and remainder trusts	180,040	(17,205)
Unrealized holding (gains) losses on investments	278,519	(266,126)
Change in assets:		
Investment income receivable	58	(2,622)
Other receivables	1,341	(1,961)
Inventory	30	(6,665)
Prepaid insurance	(6,950)	5,001
Pledges receivable	(32,068)	(12,659)
Change in liabilities:		
Accounts payable	(10,756)	13,045
Accrued payroll	(2,394)	3,240
Payroll taxes withheld and accrued	(1,905)	707
Deferred municipality revenue	(1,109)	8,631
Accrued expenses	(295)	189
	222,633	175,091
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(53,238)	(45,847)
Proceeds from charitable remainder trust	31,473	-
Purchase of investments	(1,500,737)	(3,254,751)
Proceeds from sale of investments	1,574,419	3,298,102
	51,917	(2,496)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted contributions - property and equipment	15,000	-
Change in line of credit	(95,000)	(31,500)
Payments on note payable	(126,728)	(123,503)
Capital lease payments	-	(1,530)
	(206,728)	(156,533)
Net cash from financing activities	(206,728)	(156,533)
Net change in cash	67,822	16,062
Cash, beginning	176,539	160,477
Cash, ending	\$ 244,361	\$ 176,539

See accompanying notes.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE A - NATURE OF OPERATIONS

The York County Society for the Prevention of Cruelty to Animals, a Pennsylvania nonprofit organization, (the Organization) was founded for the purpose of serving the residents of York County by preventing animal cruelty, ensuring a safer community, cultivating empathy while respecting the rights of others, and helping pets remain in living homes. The Organization also provides low cost spay and neuter services. The Organization derives substantially all of its revenues from contributions, bequests, program fees, and investment income.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, 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.

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Cash and Cash Equivalents

Cash and cash equivalents include investment in highly liquid debt instruments with a maturity of three months or less that the Organization uses for general operating purposes. There were no cash equivalents as of December 31, 2018 and 2017.

Accounts Receivable

Accounts receivable are stated at outstanding balances. The Organization considers accounts receivable to be fully collectible. If collection becomes doubtful, an allowance for doubtful accounts will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. Accretion of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Inventory

Inventory is determined by physical count and is stated at the lower of cost or realizable value. Cost is determined using the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line or accelerated methods over their estimated average useful lives as follows: buildings and improvements, ten to thirty-nine years; and equipment, three to ten years.

The Organization's policy is to capitalize assets that have a unit cost greater than \$1,000 and a useful life of more than one year. Maintenance and minor repairs which do not significantly improve or extend the lives of the assets are charged to operations when incurred. Additions, improvements and major repairs are capitalized if they significantly extend the life of an asset and exceed the capitalization policy threshold.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Investments

Investments in debt and equity securities with readily determinable fair values are reported at fair value. Unrealized gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Realized gains or losses, if any, on the sale or disposal of investments are computed on a specific identification basis and are also included as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Beneficial interests in perpetual and charitable remainder trusts are reported at fair value, as determined by the Organization's beneficiary interest percentage in the trusts. The change in the value of the beneficial interests in perpetual trusts and charitable remainder trusts are reported as increases or decreases in net assets with donor restrictions.

Interest in net assets of a community foundation is reported at fair value as determined by the community foundation.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Loan Origination Fees

Costs related to the closing of the long-term debt are capitalized and amortized to interest expense over the straight-line terms of the related long-term debt. Gross loan costs amounted to \$38,321 as of December 31, 2018 and 2017. Accumulated amortization amounted to \$17,296 and \$14,103 as of December 31, 2018 and 2017, respectively. Total amortization expense recognized in interest expense amounted to \$3,193 for each of the years ended December 31, 2018 and 2017.

Revenue Recognition

Grant income that is deemed to be an exchange transaction is classified as revenue without donor restrictions or deferred revenue, as appropriate, when received or receivable. Such grant income is not deemed to be a contribution since the proceeds thereof are used to pursue objectives of the grantor.

Grant income that is deemed to be a contribution is classified as revenue with donor restrictions when received or receivable. Such grant income is not deemed to be in respect of exchange transactions, since the proceeds thereof are non-reciprocal, unconditional, and voluntary.

All contributions are considered to be revenue without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as revenue with donor restrictions that increases the net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as revenue without donor restrictions.

Deposits and other receipts received for municipal contracts for a future period are shown as deferred income from municipalities. All deferred income is recognized as revenue in the year the respective contract is in effect.

Functional Expense Classification

The costs of providing the various programs and other activities are summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses by Natural Classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Supporting services consist of management and general and fundraising expenses. Expenses require allocation on a reasonable basis that is consistently applied. Expenses are generally allocated on the basis of estimates of time and effort.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two net classes, "net assets with donor restrictions" and "net assets without donor restrictions" and expands disclosures about the nature and amount of any donor restrictions. This guidance is effective for annual periods beginning after December 15, 2017 and retrospectively to the comparative year. Under the provisions of ASC No. 958, net assets and changes therein are classified and reported, based on the existence or absence of donor-imposed stipulations as follows:

- **Net assets without donor restrictions** - Net assets that are not subject to donor-imposed stipulations.
- **Net assets with donor restrictions** - Net assets subject to donor-imposed stipulations that will be met either by action of the Organization and/or the passage of time. When a restriction expires, the Organization reports the transfer on the Statement of Activities as net assets released from restrictions.

Upcoming Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions. The update provides a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance. For contributions received, this guidance is effective for annual periods beginning after December 15, 2018, or annual periods beginning after June 15, 2018 for public business entities. For contributions made, this guidance is effective for annual period beginning after December 15, 2019, or annual periods beginning after December 15, 2018 for public business entities.

The Organization is currently evaluating the impact of the pending adoption of the new standards on the financial statements.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE C - TAX EXEMPT STATUS

The Organization is exempt from federal and state income taxes as a nonprofit Organization under Section 501(c)(3) of the Internal Revenue Code and organized under the Pennsylvania Nonprofit Corporation Law. Accordingly, no provision for federal or state income taxes has been recorded in the financial statements. Adjustments, if any, for uncertain tax positions would be recorded as a liability. The Organization would also recognize accruals for interest and penalties related to uncertain tax positions in its interest expense. The Organization is no longer subject to tax examinations by tax authorities for years before 2015.

NOTE D - CASH

Cash consists of the following as of December 31:

	2018	2017
Checking accounts	\$ 198,847	\$ 91,513
Savings accounts	44,884	84,396
Petty cash	630	630
	\$ 244,361	\$ 176,539

The Organization maintains its cash balances in one financial institution. The balances insured for all accounts by the Federal Deposit Insurance Corporation were up to \$250,000 at December 31, 2018 and 2017. As of December 31, 2018 and 2017, the Organization's uninsured balances were \$21,157 and \$0, respectively.

NOTE E - PLEDGES RECEIVABLE

Unconditional pledges receivable as of December 31, 2018 and 2017 are \$84,727 and \$52,659, respectively. All pledges are considered current and fully collectible within one year.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2018	2017
Buildings and improvements	\$ 3,845,140	\$ 3,819,467
Land	370,749	370,749
Office and miscellaneous equipment	356,862	356,862
Kennel	110,899	99,809
Vehicles and equipment	81,368	81,368
Recovery rooms	61,179	57,101
Medic rooms	229,473	219,776
Euthanasia room	2,500	2,500
	5,058,170	5,007,632
Accumulated depreciation	(1,720,175)	(1,574,740)
Property and equipment, net	\$ 3,337,995	\$ 3,432,892

NOTE G - INVESTMENTS

Investments by type consist of the following as of December 31:

	2018		2017	
	Cost	Market	Cost	Market
Endowments:				
Common stocks	\$ 697,642	\$ 661,032	\$ 582,959	\$ 732,166
Equity mutual funds	920,683	884,420	928,705	1,098,133
Fixed income - U.S. treasuries	35,228	36,097	109,512	109,550
Fixed income - corporate securities	272,508	262,030	243,742	246,798
Fixed income - mutual funds	598,249	575,597	468,215	462,963
Other investments	55,910	49,331	68,434	67,370
Money market	112,772	112,772	208,109	208,109
Total endowments	2,692,992	2,581,279	2,609,676	2,925,089
Beneficial interests in perpetual and remainder trusts	1,276,684	1,310,122	1,379,799	1,521,635
Interest in net assets of a community foundation	25,100	32,040	25,100	36,272
	\$ 3,994,776	\$ 3,923,441	\$ 4,014,575	\$ 4,482,996

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE G - INVESTMENTS - continued

Fair Value Measurements

Accounting Standards Codification (ASC) 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable inputs which have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investment. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 and Level 2 inputs are not available.

Financial Instruments

The estimated fair values of the Organization's financial instruments for the years ended December 31, 2018 and 2017 are as follows:

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Endowments:				
Common stocks	\$ 661,032	\$ -	\$ -	\$ 661,032
Equity mutual funds	884,420	-	-	884,420
Fixed income - U.S treasuries	36,097	-	-	36,097
Fixed income - corporate securities	262,030	-	-	262,030
Fixed income - mutual funds	575,597	-	-	575,597
Other investments	49,331	-	-	49,331
Money market	<u>112,772</u>	<u>-</u>	<u>-</u>	<u>112,772</u>
Total endowments	2,581,279	-	-	2,581,279
Beneficial interests in perpetual and remainder trusts	-	-	1,310,122	1,310,122
Interest in net assets of a community foundation	<u>-</u>	<u>-</u>	<u>32,040</u>	<u>32,040</u>
	<u>\$ 2,581,279</u>	<u>\$ -</u>	<u>\$ 1,342,162</u>	<u>\$ 3,923,441</u>

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE G - INVESTMENTS - continued

Financial Instruments - continued

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Endowments:				
Common stocks	\$ 732,166	\$ -	\$ -	\$ 732,166
Equity mutual funds	1,098,133	-	-	1,098,133
Fixed income - U.S. treasuries	109,550	-	-	109,550
Fixed income - corporate securities	246,798	-	-	246,798
Fixed income - mutual funds	462,963	-	-	462,963
Other investments	67,370	-	-	67,370
Money market	<u>208,109</u>	<u>-</u>	<u>-</u>	<u>208,109</u>
Total endowments	2,925,089	-	-	2,925,089
Beneficial interests in perpetual and remainder trusts	-	-	1,521,635	1,521,635
Interest in net assets of a community foundation	<u>-</u>	<u>-</u>	<u>36,272</u>	<u>36,272</u>
	<u>\$ 2,925,089</u>	<u>\$ -</u>	<u>\$ 1,557,907</u>	<u>\$ 4,482,996</u>

The change in Level 3 fair value inputs is as follows:

	2018	2017
Beginning balance	\$1,557,907	\$1,537,757
Investment returns, net	(184,272)	20,150
Disbursements	<u>(31,473)</u>	<u>-</u>
Ending balance	<u>\$1,342,162</u>	<u>\$1,557,907</u>

The endowment investment account balance is insured against the loss of securities upon broker liquidation in amounts up to \$500,000 by the Securities Investor Protection Corporation (SIPC) at December 31, 2018 and 2017.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
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NOTE G - INVESTMENTS - continued

Mutual Funds

The Organization's investments in mutual funds are stated at fair value as determined by quoted market price which is considered a Level 1 input.

Earnings on the invested funds, realized and unrealized gains or losses on investments are reflected within investment return, net, in the statement of activities. Interest income is recorded when earned whether or not received. Dividends are recorded on the ex-dividend date.

Beneficial Interest in Perpetual and Remainder Trusts

The Organization is named as beneficiary under several perpetual and remainder trusts. The beneficiary interest allocation ranges from 5% to 100% for the years ended December 31, 2018 and 2017.

The Organization's beneficial interests in perpetual and remainder trusts are stated at fair value as determined by the Organization's interest in the fair value of the underlying assets, which is considered a Level 3 input.

Interest in Net Assets of Community Foundation

In accordance with ASC 958, the Organizational endowment fund created by the Organization at the York County Community Foundation (Foundation) is reflected in the Statements of Financial Position as interest in net assets of a community foundation. During the year ended December 31, 2008, the Organization contributed \$25,000 to establish the fund. Through December 31, 2018, the Organization has contributed a total of \$25,100 to the fund.

Future contributions are at the discretion of the Board of Directors. As of December 31, 2018 and 2017, the fair value of the Organization's interest in net assets of a community foundation amounted to \$32,040 and \$36,272, respectively. The fund is the property of the Foundation and is held as a component of the Foundation. In accordance with ASC 958, other contributions made directly to the Foundation will create designated endowment funds which are not assets of the Organization and are not reflected in the Statements of Financial Position.

The Organization may, based on unusual circumstances, need or opportunity, request amounts of principal. The Board of Directors of the Foundation will grant such a request, if it concludes that such distribution is neither unreasonable nor inconsistent with the charitable purposes of the Foundation and the Organization. The Organization directed the Foundation to reinvest the income from the fund, until such time as further instructions are provided.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE G - INVESTMENTS - continued

Interest in Net Assets of Community Foundation - continued

The Organization's interest in net assets of a community foundation is stated at fair value which is determined based on management's assumptions that market participants would use in pricing the asset. The assumptions are developed based on the best information available which is a Level 3 input.

NOTE H - ENDOWMENT

The Organization's endowments consist of several funds established for a variety of purposes. The endowment includes a fund designated by the Board of Directors to function as an endowment, beneficial interests in perpetual trusts, and interest in net assets of a community foundation. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include funds designated by the Board of Directors to function as an endowment. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that allow the Organization to fund the appropriate programs while assuming a moderate level of investment risk. The investment related to the Organization's beneficial interest in perpetual trusts and interest in net assets of a community foundation are determined by the trustee of those trusts and the foundation, respectively, rather than the Organization.

The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE H - ENDOWMENT - continued

Interpretation of Relevant Law

The Board of Directors has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts of the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is considered net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the relevant state law. Unless specifically defined by a donor-restricted endowment fund required by donor stipulation, the Organization considers the following factors in making a determination to accumulate or appropriate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Organization currently has no donor-restricted investments requiring a spending policy. The spending of the board-designated funds is at the Board of Directors' discretion. The Board of Directors approves annual disbursements from the funds on a specific need basis with no annual disbursement of more than 4% of the fair market value as of the beginning of the year. The Board of Directors; however, can approve a change to the spending rate in certain circumstances. The Organization's endowment assets also include beneficial interests in perpetual trusts and interest in net assets of a community foundation whose distribution and spending are determined by the trustees of those trusts and the foundation.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE H - ENDOWMENT - continued

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy - continued

The following schedule represents the endowment net asset composition by type of endowment fund as of December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,613,319	\$ -	\$ 2,613,319
Donor-restricted endowment funds	-	1,310,122	1,310,122
	<u>\$ 2,613,319</u>	<u>\$ 1,310,122</u>	<u>\$ 3,923,441</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,961,361	\$ -	\$ 2,961,361
Donor-restricted endowment funds	-	1,521,635	1,521,635
	<u>\$ 2,961,361</u>	<u>\$ 1,521,635</u>	<u>\$ 4,482,996</u>

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE H - ENDOWMENT - continued

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy - continued

The following schedules represent the changes in endowment net assets for the years ended December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,961,361	\$ 1,521,635	\$ 4,482,996
Investment return:			
Interest and dividends, net of fees	47,390	-	47,390
Net losses (realized and unrealized)	(274,360)	(180,040)	(454,400)
Disbursements	(121,072)	(31,473)	(152,545)
Endowment net assets, end of year	<u>\$ 2,613,319</u>	<u>\$ 1,310,122</u>	<u>\$ 3,923,441</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,680,088	\$ 1,504,430	\$ 4,184,518
Investment return:			
Interest and dividends, net of fees	44,503	-	44,503
Net gains (realized and unrealized)	324,624	17,205	341,829
Deposits	12,146	-	12,146
Disbursements	(100,000)	-	(100,000)
Endowment net assets, end of year	<u>\$ 2,961,361</u>	<u>\$ 1,521,635</u>	<u>\$ 4,482,996</u>

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE I - LINE OF CREDIT

The Organization has available for operations a line of credit of \$500,000 with borrowings outstanding at \$0 and \$95,000 on December 31, 2018 and 2017, respectively. The line of credit bears interest at the greater of New York Prime rate minus 0.75%, which was 5.50% and 4.50% as of December 31, 2018 and 2017, respectively. The line of credit is secured with a first lien mortgage on the property at 3159 Susquehanna Trail North, York, PA 17406.

NOTE J - CAPITAL LEASE

On March 20, 2017, the Organization entered into a capital lease for equipment requiring monthly payments of \$697 for 72 months and containing a purchase option at the end of the lease for \$1. Related accumulated amortization totaled \$12,623 and \$5,410 as of December 31, 2018 and 2017, respectively.

Amortization is included with depreciation expense on the Statements of Functional Expenses.

Following are the future minimum payments on the above lease as well as the interest component:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 6,923	\$ 1,441	\$ 8,364
2020	7,277	1,087	8,364
2021	7,650	714	8,364
2022	8,041	323	8,364
2023	<u>2,074</u>	<u>17</u>	<u>2,091</u>
	<u>\$31,965</u>	<u>\$ 3,582</u>	<u>\$ 35,547</u>

NOTE K - NOTE PAYABLE

On August 30, 2012, the Organization obtained a loan from Fulton Bank, N.A., funded by the General Authority of South Central Pennsylvania. The loan proceeds were used to construct a spay and neuter wing on the site of the existing animal shelter and for related costs. The loan is collateralized by the service agreement described in detail below. The interest rate is fixed at 2.61% for the first ten years and after that is set at 70% of the bank's prime rate. The spay and neuter wing was completed in August 2013 and the Organization began making monthly principal payments in September 2013. Interest rate was 2.61% as of December 31, 2018 and 2017.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE K - NOTE PAYABLE - continued

The formalized service agreement, between the County of York and the Organization calls for the County to provide annual service payments of \$136,000 commencing June 1, 2013 and continuing over a twelve-year period. Receipt of the annual service payments is dependent upon the Organization continuing to operate the spay and neuter facilities for the benefit of the residents of York County.

The Service Agreement requires that the Organization measure the excess receipts over expenditures directly and solely related to the operation of the spay and neuter facilities. If the excess revenue exceeds \$143,000, the excess funds are to be used to pay additional principal on the project financing.

Note payable balance is net of loan origination fees related to the issuance of debt. Principal and loan origination fees breakdown as of December 31, 2018 are as follows:

	<u>Principal</u>	<u>Loan Origination Fee</u>	<u>Net Principal</u>
Current portion of note payable	\$ 124,655	\$ (3,193)	\$ 121,462
Long-term portion of note payable	<u>636,329</u>	<u>(17,832)</u>	<u>618,497</u>
	<u>\$ 760,984</u>	<u>\$(21,025)</u>	<u>\$ 739,959</u>

Note payable balance is net of loan origination fees related to the issuance of debt. Principal and loan origination fees breakdown as of December 31, 2017 are as follows:

	<u>Principal</u>	<u>Loan Origination Fee</u>	<u>Net Principal</u>
Current portion of note payable	\$ 121,447	\$ (3,193)	\$ 118,254
Long-term portion of note payable	<u>766,265</u>	<u>(21,025)</u>	<u>745,240</u>
	<u>\$ 887,712</u>	<u>\$(24,218)</u>	<u>\$ 863,494</u>

Following are the future minimum payments on the note payable:

2019	\$ 124,655
2020	127,948
2021	134,797
2022	138,357
2023	142,012
Thereafter	<u>93,215</u>
	<u>\$ 760,984</u>

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
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NOTE L - NET ASSETS

The Organization's net assets without donor restrictions consist of undesignated and board-designated amounts for the following purposes as of December 31:

	2018	2017
Undesignated	\$ 2,450,171	\$ 2,204,019
Board-designated for Endowment	2,613,319	2,961,361
	\$ 5,063,490	\$ 5,165,380

The Organization's net assets with donor restrictions consist of the following as of December 31:

	2018	2017
Subject to expenditures for specific purpose:		
Second chance program	\$ 153,522	\$ 106,105
Equine care program	68,376	78,362
Wildside program	30,926	50,926
Spay it forward program	24,667	46,848
AAHA accreditation	-	18,676
Subject to the passage of time:		
Beneficial interest in charitable remainder trusts	121,766	184,797
Pledges receivable - operations	84,727	52,659
Perpetual in nature		
Beneficial interest in perpetual trusts	1,188,356	1,336,838
	\$ 1,672,340	\$ 1,875,211

NOTE M - IN-KIND CONTRIBUTIONS

Contributed materials, including contributed equipment and medical supplies, and certain contributed services, including advertising, are reported in the accompanying financial statements at their fair market value as of the date the items were received. In-kind contributions for the years ended December 31, 2018 and 2017 totaled \$13,892 and \$18,257, respectively.

During the years ended December 31, 2018 and 2017, a substantial number of individual volunteers and businesses have donated significant amounts of time to the Organization's programs and administrative functions. These services do not meet the criteria for recognition as contributed services and are not reflected on the accompanying financial statements.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE N - RETIREMENT PLAN

The Organization sponsors a defined contribution retirement plan covering employees who meet certain age and length of service requirements. Contributions to the retirement plan are based on compensation and employees' contributions. Retirement expense for the years ended December 31, 2018 and 2017 amounted to \$24,295 and \$33,492, respectively.

NOTE O - RELATED PARTY TRANSACTIONS

The Organization's related party transactions are with members of its Board of Directors and management as detailed below during the years ended December 31:

	<u>2018</u>	<u>2017</u>
Contributions	<u>\$ 125,745</u>	<u>\$137,925</u>

NOTE P - SUPPLEMENTAL CASH FLOW

In 2018, capital lease payments of \$6,586 principal and \$1,778 interest were paid with points.

In 2017, capital lease payments of \$4,212 principal and \$1,364 interest were paid with points. In 2017, the Organization was granted \$8,208 in debt forgiveness for the 2014 capital lease. Capital expenditures in the amount of \$43,279 were related to the Organization's new capital lease.

In 2017, accounts payable includes \$2,700 of capital expenditures.

Interest paid in cash for the years ended December 31, 2018 and 2017 was \$24,295 and \$33,492, respectively.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE Q - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other designations limiting their use, within one year of the statement of financial position, comprise the following as of December 31:

Financial Assets	<u>2018</u>	<u>2017</u>
Cash	\$ 244,361	\$ 176,539
Pledges receivable	84,727	52,659
Investment income receivable	4,123	4,181
Other receivables	620	1,961
Investments	2,581,279	2,925,089
Distributions from beneficial interest in perpetual trusts	61,000	58,428
Distributions from interest in net assets of a community foundation	<u>1,550</u>	<u>1,554</u>
Total Financial Assets	<u>2,977,660</u>	<u>3,220,411</u>
Less amounts not available for general expenditures within one year		
Subject to donor restrictions	(277,491)	(300,917)
Board-designated investments for endowment	<u>(2,581,279)</u>	<u>(2,925,089)</u>
Total Amounts Not Available for General Expenditures within One Year	<u>(2,858,770)</u>	<u>(3,226,006)</u>
Financial Assets Available to be Used Within One Year	<u>\$ 118,890</u>	<u>\$ (5,595)</u>

As part of the Organizations' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

The investment funds consist of funds designated by the board as endowments. The Organization's investment policy allows for an annual withdrawal of up to 4% of the investment's prior year end balance, as approved by the Board of Directors on an annual basis. Additional withdrawals may be approved at the discretion of the Board of Directors. Although the Organization does not intend to spend from the board-designated fund, these funds could be made available if necessary.

The Organization also has a line of credit available to meet short-term needs. See Note I for additional information.

YORK COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE R - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditors' report.