THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Pennsylvania Society For the Prevention of Cruelty to Animals
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of The Pennsylvania Society For the Prevention of Cruelty to Animals (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
The Pennsylvania Society For the Prevention of Cruelty to Animals

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pennsylvania Society For the Prevention of Cruelty to Animals as of December 31, 2018 and 2017, 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 Regarding Change in Accounting Principle

As discussed in Note 1, to the financial statements, The Pennsylvania Society For the Prevention of Cruelty to Animals adopted *ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the Pennsylvania Society For the Prevention of Cruelty to Animals and Subsidiary, which comprises the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended (none of which is presented herein), and we expressed an unmodified opinion on those financial statements. Such consolidated financial statements are the general-purpose financial statements of the Pennsylvania Society For the Prevention of Cruelty to Animals and Subsidiary and the financial statements of parent company presented herein are not a valid substitute for those consolidated financial statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 23, 2019

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 122,033	$ 431,480
Accounts Receivable, Net	19,884	29,815
Grants Receivable and Promises to Give, Current Portion	391,762	186,125
Bequests and Contributions Receivable	243,372	211,176
Other Receivables	15,026	13,642
Inventory	138,623	130,473
Prepaid Expenses	220,201	190,739
Deposits	35,577	33,213
Total Current Assets	1,186,478	1,226,663
PROPERTY AND EQUIPMENT, NET	6,367,009	6,558,204
OTHER ASSETS		
Investments	5,260,880	6,245,742
Beneficial Interests in Perpetual Trusts Held by Third Parties	11,434,307	12,900,121
Grants Receivable and Promises to Give, Less Current Portion	667,508	113,341
Total Other Assets	17,362,695	19,259,204
Total Assets	$ 24,916,182	$ 27,044,071
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 549,881	$ 578,101
Capital Lease Obligation, Current Portion	3,958	3,813
Charitable Gift Annuity, Current Portion	2,400	1,316
Deferred Rent	4,294	6,018
Due to Subsidiary	9,157	-
Total Current Liabilities	569,690	589,248
LONG-TERM LIABILITIES		
Postretirement Health Benefits Obligation	299,912	299,488
Charitable Gift Annuity, Less Current Portion	29,119	19,615
Capital Lease Obligation, Less Current Portion	8,374	12,332
Total Long-Term Liabilities	337,405	331,435
Total Liabilities	907,095	920,683
NET ASSETS		
Without Donor Restrictions	7,655,186	8,660,934
With Donor Restrictions	16,353,901	17,462,454
Total Net Assets	24,009,087	26,123,388
Total Liabilities and Net Assets	$ 24,916,182	$ 27,044,071

See accompanying Notes to Financial Statements.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT, REVENUES, AND GAINS			
Program Revenue	$ 3,134,833	$ -	$ 3,134,833
Municipal Contract Stray Revenue	33,660	-	33,660
Contributions	1,585,370	300,173	1,885,543
Contributions - In-Kind	635,968	-	635,968
Bequests	2,069,956	32,324	2,102,280
Trusts	416,509	157,512	574,021
Promises to Give	-	859,917	859,917
Grants	110,677	394,168	504,845
Special Events	1,316,975	117,787	1,434,762
Interest and Dividends, Net of Investment Fees	39,920	56,678	96,598
Net Realized and Unrealized Loss on Investments	(134,203)	(281,760)	(415,963)
Other Revenue	116,265	-	116,265
Decrease in Fair Value of Beneficial Interests in Perpetual Trusts Held by Third Parties	-	(1,465,814)	(1,465,814)
Total	9,325,930	170,985	9,496,915
Net Assets Release from Restrictions:			
Satisfaction of Purpose Restrictions	1,279,538	(1,279,538)	-
Total Support, Revenues, and Gains	10,605,468	(1,108,553)	9,496,915
EXPENSES			
Program Expenses:			
Humane Law Enforcement and Litigation	1,863,738	-	1,863,738
Spay and Neuter and Public Veterinary Care	2,507,004	-	2,507,004
Adoptions, Lifesaving, and Shelter Hospital	4,966,946	-	4,966,946
Humane Education	191,493	-	191,493
Management and General	760,617	-	760,617
Fundraising/Development	1,321,418	-	1,321,418
Total Operating Expenses	11,611,216	-	11,611,216
CHANGE IN NET ASSETS	(1,005,748)	(1,108,553)	(2,114,301)
Net Assets - Beginning of Year	8,660,934	17,462,454	26,123,388
NET ASSETS - END OF YEAR	$ 7,655,186	$ 16,353,901	$ 24,009,087

See accompanying Notes to Financial Statements.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT, REVENUES, AND GAINS			
Program Revenue	$ 2,926,036	$ -	$ 2,926,036
Municipal Contract Stray Revenue	33,383	-	33,383
Contributions	1,613,611	332,809	1,946,420
Contributions - In-Kind	501,058	-	501,058
Bequests	1,360,633	232,826	1,593,459
Trusts	433,721	160,742	594,463
Promises to Give	-	149,524	149,524
Grants	43,962	546,738	590,700
Special Events	762,488	350,650	1,113,138
Interest and Dividends, Net of Investment Fees	46,261	56,604	102,865
Net Realized and Unrealized Gain on Investments	265,290	350,366	615,656
Other Revenue	8,960	-	8,960
Increase in Fair Value of Beneficial Interests in Perpetual Trusts Held by Third Parties	-	1,023,521	1,023,521
Gain on Sale of Asset	2,917	-	2,917
Total	7,998,320	3,203,780	11,202,100
Net Assets Release from Restrictions:			
Satisfaction of Purpose Restrictions	1,902,075	(1,902,075)	-
Total Support, Revenues, and Gains	9,900,395	1,301,705	11,202,100
EXPENSES			
Program Expenses:			
Humane Law Enforcement and Litigation	1,521,628	-	1,521,628
Spay and Neuter and Public Veterinary Care	2,323,748	-	2,323,748
Adoptions, Lifesaving, and Shelter Hospital	4,246,484	-	4,246,484
Humane Education	194,587	-	194,587
Management and General	540,327	-	540,327
Fundraising/Development	1,199,618	-	1,199,618
Total Operating Expenses	10,026,392	-	10,026,392
CHANGE IN NET ASSETS	(125,997)	1,301,705	1,175,708
Net Assets - Beginning of Year	8,786,931	16,160,749	24,947,680
NET ASSETS - END OF YEAR	$ 8,660,934	$ 17,462,454	$ 26,123,388

See accompanying Notes to Financial Statements.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Expenses								
	Humane Law Enforcement and Litigation	Spay and Neuter and Public Veterinary Care	Adoptions Lifesaving and Shelter Hospital	Humane Education	Total Program Expense	Management and General	Fundraising	Total Support Expense	Total Expense
Salaries and Wages	$ 630,880	$ 1,065,740	$ 2,441,908	$ 91,057	$ 4,229,585	$ 510,092	$ 646,938	$ 1,157,030	$ 5,386,615
Payroll Taxes and Employee Benefits	106,075	244,563	574,473	20,318	945,429	163,387	119,756	283,143	1,228,572
Training and Other Employment Costs	11,837	8,809	19,313	1,699	41,658	4,720	1,775	6,495	48,153
Workers' Compensation	19,797	32,487	71,835	310	124,429	1,660	2,144	3,804	128,233
Insurance	189,170	31,811	85,787	2,348	309,116	21,833	7,615	29,448	338,564
Medical Supplies	616	514,675	326,031	18,538	859,860	-	-	-	859,860
Other Supplies, Postage, and Shipping	26,867	44,789	269,955	18,449	360,060	15,627	23,476	39,103	399,163
Pet Food	-	-	166,298	-	166,298	-	-	-	166,298
Events	9,616	678	5,727	(500)	15,521	-	193,309	193,309	208,830
Leased Equipment and Facility	6,991	21,446	118,433	2,661	149,531	5,981	7,066	13,047	162,578
Direct Mail	20,777	20,777	20,777	20,777	83,108	-	147,345	147,345	230,453
Humane Services	120,627	65,615	90,830	3,257	280,329	-	-	-	280,329
Legal (Including In-Kind) and Audit	557,523	6,693	15,227	573	580,016	3,207	4,068	7,275	587,291
Consulting and Contracted Services	3,490	126,158	66,813	453	196,914	7,139	33,839	40,978	237,892
Network and Website	1,783	6,893	14,074	700	23,450	1,596	27,013	28,609	52,059
Telephone	10,654	17,716	18,654	982	48,006	987	2,537	3,524	51,530
Utilities	10,499	33,034	155,958	1,042	200,533	4,521	5,849	10,370	210,903
Repairs, Maintenance, and Facilities	5,912	29,077	111,815	353	147,157	1,588	2,296	3,884	151,041
Vehicle and Transportation	70,380	6,657	33,570	1,148	111,755	701	1,265	1,966	113,721
Advertising (Including In-Kind) and Printing	296	989	1,960	2,476	5,721	139	2,394	2,533	8,254
Dues, Licenses, and Subscriptions	1,728	3,412	4,710	533	10,383	746	2,479	3,225	13,608
Bank, Credit Card, and Payroll Fees	7,322	36,962	34,101	686	79,071	3,960	21,157	25,117	104,188
Bad Debt	-	27,888	221	-	28,109	-	-	-	28,109
Travel, Meals, Entertainment, and Other	2,859	5,201	16,174	347	24,581	4,725	3,252	7,977	32,558
Depreciation (Including In-Kind)	42,032	49,504	265,629	2,095	359,260	5,775	6,884	12,659	371,919
Interest	2,762	5,023	10,783	399	18,967	2,233	2,831	5,064	24,031
Grant Awards	-	100,000	400	792	101,192	-	1,035	1,035	102,227
Other In-Kind Expenses	3,245	407	25,490	-	29,142	-	55,095	55,095	84,237
Total Expense	$ 1,863,738	$ 2,507,004	$ 4,966,946	$ 191,493	$ 9,529,181	$ 760,617	$ 1,321,418	$ 2,082,035	$ 11,611,216

See accompanying Notes to Financial Statements.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

	Program Expenses								
	Humane Law Enforcement and Litigation	Spay and Neuter and Public Veterinary Care	Adoptions Lifesaving and Shelter Hospital	Humane Education	Total Program Expense	Management and General	Fundraising	Total Support Expense	Total Expense
Salaries and Wages	$ 633,739	$ 978,215	$ 2,020,328	$ 98,273	$ 3,730,555	$ 400,112	$ 548,221	$ 948,333	$ 4,678,888
Payroll Taxes and Employee Benefits	106,390	174,665	362,762	19,321	663,138	51,887	79,602	131,489	794,627
Training and Other Employment Costs	9,670	11,274	15,798	858	37,600	3,477	4,468	7,945	45,545
Workers' Compensation	105,581	41,421	85,947	772	233,721	5,175	7,605	12,780	246,501
Insurance	210,264	30,517	80,571	3,100	324,452	7,559	7,266	14,825	339,277
Medical Supplies	608	508,964	251,730	2,395	763,697	-	-	-	763,697
Other Supplies, Postage, and Shipping	8,273	21,095	221,071	8,420	258,859	4,269	27,317	31,586	290,445
Pet Food	-	265	122,272	-	122,537	-	-	-	122,537
Events	13,170	91	4,359	933	18,553	91	165,122	165,213	183,766
Leased Equipment and Facility	6,876	20,906	75,757	2,705	106,244	5,056	6,210	11,266	117,510
Direct Mail	21,468	21,468	21,468	21,468	85,872	-	140,109	140,109	225,981
Humane Services	5,981	63,025	102,255	887	172,148	-	-	-	172,148
Legal (Including In-Kind) and Audit	239,081	6,288	21,150	632	267,151	2,572	37,022	39,594	306,745
Consulting and Contracted Services	4,069	124,004	60,359	1,556	189,988	12,369	47,539	59,908	249,896
Network and Website	2,876	8,508	12,535	2,151	26,070	2,559	39,458	42,017	68,087
Telephone	16,262	10,349	17,731	707	45,049	512	2,503	3,015	48,064
Utilities	12,139	34,286	177,902	1,161	225,488	4,694	7,844	12,538	238,026
Repairs, Maintenance, and Facilities	5,746	17,948	82,874	353	106,921	1,430	10,330	11,760	118,681
Vehicle and Transportation	54,640	1,040	27,957	462	84,099	223	582	805	84,904
Advertising (Including In-Kind) and Printing	22,060	21,960	22,198	22,812	89,030	22,060	24,499	46,559	135,589
Dues, Licenses, and Subscriptions	2,873	5,419	2,818	665	11,775	897	3,179	4,076	15,851
Bank, Credit Card, and Payroll Fees	7,397	35,787	29,726	904	73,814	3,506	18,063	21,569	95,383
Bad Debt	-	1,821	469	-	2,290	-	-	-	2,290
Travel, Meals, Entertainment, and Other	2,698	9,580	16,631	880	29,789	4,665	3,641	8,306	38,095
Depreciation (Including In-Kind)	23,828	46,104	262,194	2,238	334,364	5,802	7,627	13,429	347,793
Interest	1,951	3,466	6,447	303	12,167	1,232	1,688	2,920	15,087
Grant Awards	-	125,000	117,500	580	243,080	-	-	-	243,080
Other In-Kind Expenses	3,988	282	23,675	51	27,996	180	9,723	9,903	37,899
Total Expense	$ 1,521,628	$ 2,323,748	$ 4,246,484	$ 194,587	$ 8,286,447	$ 540,327	$ 1,199,618	$ 1,739,945	$ 10,026,392

See accompanying Notes to Financial Statements.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (2,114,301)	$ 1,175,708
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	371,919	347,793
Bad Debt Expense	28,109	2,290
Net Realized and Unrealized (Gains) Losses on Investments	415,963	(615,656)
(Increase) Decrease in Fair Value of Beneficial Interests in Perpetual Trusts Held by Third Parties	1,465,814	(1,023,521)
Gain on Disposition of Equipment	-	(200)
Gain on Sale of Property, Leasehold Improvements, and Equipment	-	(6,813)
(Increase) Decrease in:		
Accounts Receivable	(18,178)	(7,840)
Other Receivables	(1,384)	(9,720)
Trusts Receivable	-	42,184
Grants Receivable and Promises to Give	(759,804)	(65,598)
Bequests and Contributions Receivable	(32,196)	(55,689)
Inventory	(8,150)	27,664
Prepaid Expenses	(29,462)	9,979
Deposits	(2,364)	-
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(28,220)	47,334
Charitable Gift Annuity	10,588	6,085
Deferred Rent	(1,724)	1,007
Deferred Revenue	-	(48,087)
Advances to Subsidiary	9,157	-
Postretirement Health Benefits Obligation	424	(53,704)
Net Cash Used by Operating Activities	(693,809)	(226,784)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment	(180,724)	(602,432)
Proceeds of Property, Leasehold Improvements, and Equipment	-	215,696
Purchase of Investments	(4,409,763)	(1,842,486)
Proceeds from Sale of Investments	4,978,662	2,751,328
Net Cash Provided by Investing Activities	388,175	522,106
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of Capital Lease Obligation	(3,813)	(3,673)
Net Cash Used by Financing Activities	(3,813)	(3,673)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(309,447)	291,649

See accompanying Notes to Financial Statements.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net Increase (Decrease) in Cash and Cash Equivalents - Forwarded	$ (309,447)	$ 291,649
Cash and Cash Equivalents - Beginning of Year	431,480	139,831
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 122,033	$ 431,480
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	$ 24,031	$ 15,853
NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital Lease Obligation Invested for the Use of Equipment	$ 11,650	$ 15,547
Contributions of Leasehold Improvements and Equipment	$ -	$ 92,373

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Pennsylvania Society For the Prevention of Cruelty to Animals (the PSPCA), a nonprofit 501(c)(3) organization, was established in the Commonwealth of Pennsylvania in 1867. The PSPCA has the distinction of being the state's oldest, largest, and most comprehensive animal welfare organization, and is the second oldest humane organization in the United States. The PSPCA conducts its operations at its headquarters located in North Philadelphia, at two regional locations – the Central PA Center at Danville (Montour County) and the Lancaster Center, and at a satellite location, the Fishtown Center (Philadelphia). The PSPCA operates under a "no-kill" philosophy and is dedicated to preventing animal cruelty, rescuing animals from cruelty and neglect, rehabilitating animals medically and behaviorally, placing rescued animals with new, loving families, reducing pet overpopulation through low-cost spay and neuter services, and improving the health and quality of life of all animals in the region. The core services provided by the PSPCA include:

- Humane Law Enforcement – to prevent animal cruelty and neglect by enforcing Pennsylvania's anti-cruelty laws;
- Humane Litigation – to oversee the prosecution of cruelty cases brought by the Humane Law Enforcement team;
- Humane Education – to prevent animal cruelty and to promote responsible pet ownership and animal advocacy by educating children and adults in the community about the humane treatment of animals;
- Adoptions, Foster and Rescue – to place formerly neglected, abused, or unwanted animals in forever homes, which includes collaboration with other animal shelters;
- Behavior & Enrichment – to assess incoming animals, design individual enrichment and/or behavior modification plans, and offer classes to provide training and support to adopters and current pet owners to improve pet retention;
- Surgical Services – to offer affordable and accessible surgical services to the community, including spay/neuter, which helps reduce pet overpopulation;
- Public Veterinary Care – to provide low-cost wellness, preventative, geriatric, and end-of-life pet care services to the community, including exams and treatments, vaccine clinics, micro-chipping, and flea/tick prevention; and
- Shelter Hospital Care – to provide high quality, personalized, and compassionate veterinary treatment and medical rehabilitation of sick and injured animals in the PSPCA's care, a significant volume of which enter the shelter through Humane Law Enforcement, as well as providing innovative forensic support to our Humane Law Enforcement team.

The PSPCA's sources of revenue include fees for program services, grants, bequests, and contributions from donors and trusts (including at special events). The PSPCA relies on donor support and does not receive funding from Federal, state, or local government agencies. Additionally, the PSPCA has a strong network of volunteers that support its mission and help connect the organization to its community.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Activities (Continued)

The board of directors of the PSPCA has the responsibility to direct and carry out activities including, but not limited to, the selection of the Chief Executive Officer, approval of annual budgets and strategic plans, and oversight of the management of the PSPCA. The board of directors also has the authority to borrow money, purchase, sell or transfer property.

These financial statements only include the financial information of the Pennsylvania Society for the Prevention of Cruelty to Animals for the purposes of providing financial information in a stand-alone format at the request of management and the board of directors. These financial statements are not considered general purpose financial statements, which would require the consolidation of PSPCA's sole member subsidiary Main Line Rescue, Inc. dba: Main Line Animal Rescue.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Financial Statement Presentation

For the year ended December 31, 2018, the PSPCA adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard is intended to improve net asset classification requirements and the information presented in the financial statements and notes about the PSPCA's liquidity, financial performance, and cash flows. The standard requires the PSPCA to reclassify its net assets from three categories (i.e., unrestricted, temporarily restricted and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions.

Classification of Net Assets

Resources in the accompanying financial statements are classified for accounting and reporting purposes reflect all significant receivables, payables, and other liabilities. Financial statement presentation follows the recommendations of the Financial Statements of Not-for-Profit Organizations topic of the FASB Standards Codification. The PSPCA is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions

A portion of net assets is not subject to donor-imposed restrictions. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net Assets With Donor Restrictions

A portion of net assets subject to donor-imposed restrictions that may or will be met, either by actions of the PSPCA and/or the passage of time or specifically for a purpose. When a restriction expires, net assets are reclassified to Net Assets without Donor Restrictions as a satisfaction of a purpose or time restriction and reported in the statement of activities as a release from restrictions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

Net assets subject to donor-imposed stipulations that they be maintained permanently by the PSPCA which would be considered perpetual Net Assets with Donor Restrictions. Generally, the donors of these assets permit the PSPCA to use all or part of the income earned on any related investments for general or specific purposes.

For the year ended December 31, 2018 and 2017, Net Assets with Donor Restrictions, which include both time and purpose amounted to $4,388,431 and $4,031,168 respectively, and endowment and perpetual restrictions amounted to $11,965,470 and $13,431,286, respectively.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in net assets without restrictions. Expiration of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as net assets satisfaction of restrictions.

Cash and Cash Equivalents

Cash and cash equivalents includes liquid instruments with original maturities of three months or less which the PSPCA intends to utilize to fund operations. The PSPCA maintains its primary depository account with a commercial bank. During the year, the PSPCA may have cash balances on deposit in excess of the federally insured limit.

Use of Estimates

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

Accounts Receivable

The PSPCA carries its accounts receivables at the invoice amount, appropriately reduced for any contractual allowances, less allowance for doubtful accounts. On a monthly basis, management evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on its assessment of uncollectible accounts receivable.

Accounts Receivable consisted of the following at December 31:

	2018	2017
Accounts Receivable	$ 172,546	$ 174,885
Less: Allowance for Doubtful Accounts	(152,662)	(145,070)
Net Accounts Receivable	$ 19,884	$ 29,815

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory, consisting of veterinary medical supplies and pharmaceuticals, is valued at the lower of cost (average cost) or net realizable value.

Investments

Investments are stated fair value. The investments in mutual funds are valued at the net asset value of shares held by the PSPCA at year-end. Invested cash is stated at cost which approximates fair value.

Investments in mutual funds, equity securities, and bonds with readily determinable fair values are carried at quoted market value. The net changes in fair value and the realized gains and losses on investments sold are reflected in the statements of activities as net realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is reasonably possible that such changes in the values of investments will occur in the near term and that changes could materially affect the amounts reported in the statement of financial position.

Property and Equipment

Land owned by the PSPCA is stated at cost. Property and equipment are capitalized and recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. The PSPCA will capitalize assets purchased with a cost greater than $2,500, as described in the PSPCA's capitalization policy. Maintenance and minor repairs are charged to expense when incurred. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in the statement of activities. The PSPCA records contributed assets at their fair value as of the date of contribution.

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

Long-lived assets, such as property and equipment are reviewed periodically for impairment based on comparison of carrying value against undiscounted future cash flows. If impairment is identified, the assets' carrying amounts are adjusted to fair value. There were no such adjustments during the years ended December 31, 2018 and 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

The estimated useful lives for depreciation are:

Buildings and Dog Park	50 Years
Building Improvements	10 Years
Furniture and Equipment	10 Years
Vehicles	4 Years
Leasehold Improvements	5 Years
Assets Held under Capital Lease	6 Years

Contributions and Grants

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future use or restricted by the donor for specific purposes are reported as with donor restrictions support that increases this net asset class. When a donor restriction expires, these net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets having the restriction satisfied.

Contributions and grants that are expected to be collected within one year are recorded at their net realizable value; management believes the grant and contribution receivables at December 31, 2018 were fully collectible.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Management believes the promises to give at December 31, 2018 were fully collectible.

Charitable Gift Annuity

Donors have contributed assets to the PSPCA in exchange for promises by the PSPCA to pay a fixed amount for a specified period of time to such donors. Under the terms of these agreements, no trust exists as the assets received are held by, and the annuity liability is an obligation of, the PSPCA. The discount rates used to measure the liabilities were 2.6% and 2.6% during 2018 and 2017.

Trusts Receivable

The PSPCA will receive distributions from various trusts held by third parties either through beneficial ownership interests (in whole or in part) in perpetual trusts or through discretion of individual trusts or estates. Unless restricted by the donor as to time or purpose, trust distributions are reported as support without donor restrictions and are recognized as revenue in the period received or distributed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bequests

Unless restricted by the donor as to time or purpose, bequests are reported as support without donor restrictions and are recognized as revenue in the period received.

Program Revenue

Program revenue is recorded as services are provided. The PSPCA's services are primarily funded through payments for adoptions, public veterinary care, and spay and neuter and other surgeries.

Nonmonetary Exchange Transactions

Nonmonetary transactions are recorded based on the fair values of the services involved. Consequently, the amount recorded for these services received in a nonmonetary exchange is the fair value of the services provided (or the fair value any assets or services received if they are more clearly evident).

Donated Services

A substantial number of volunteers have donated time to the activities of the PSPCA. However, such contributed services do not meet the criteria for recognition of contributed services in accordance with generally accepted accounting principles and, accordingly, are not reflected in the accompanying financial statements.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the PSPCA. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, office and occupancy, and supplies, which are allocated on a square footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Program and support service cost have been allocated to the various programs which are represented in the statement of functional expenses.

Uniform Prudent Management of Institutional Funds Act

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on the classification of endowment fund net assets for states that have enacted versions of the UPMIFA, and enhances disclosures for endowment funds. Because UPMIFA has not become law in the Commonwealth of Pennsylvania, possible reclassifications of net assets are not required to be made.

Fair Value Measurements

The PSPCA has categorized its financial instruments based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Financial assets recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the PSPCA has the ability to access (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Level 2 – Financial assets whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for identical or similar assets or liabilities in nonactive markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities, and derivatives).

Level 3 – Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset (examples include certain private equity investments, long-term promises to give and split-interest agreements).

Beneficial interests in perpetual trusts held by third parties represent the PSPCA's proportionate share of the fair value of assets contributed to several trusts, from which the PSPCA has the irrevocable right to receive income earned in perpetuity.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, although the PSPCA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at December 31, 2018 and 2017, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The PSPCA is a nonprofit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal, state, and local income taxes. Accordingly, there is no provision for income taxes. The PSPCA is not aware of any activities that would jeopardize its tax-exempt status or any activities that are subject to tax on unrelated business income taxes.

The PSPCA follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The application of this standard had no impact on the PSPCA’s financial statements.

Change in Accounting Principle

The PSPCA adopted FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. The inclusion of the required liquidity disclosures are included for 2018 only. The adoption did not impact the PSPCA’s financial position as of December 31, 2018 and 2017 or the changes in its net assets for the years then ended.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU establishes guidance that will result in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions. The new guidance will result in fewer opportunities for organizations to structure leasing transactions to achieve a particular accounting outcome on the statement of financial position and will improve the understanding and comparability of lessees’ financial commitments regardless of the manner they choose to finance the assets used in their businesses. The provisions of ASU 2016-02 are effective for fiscal years beginning after December 15, 2019 with early adoption is permitted. The PSPCA is assessing the impact this standard will have on its financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. The provisions of ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted one year prior. The PSPCA is assessing the impact this standard will have on its financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Clarifying Scope and the Accounting Guidance for Contributions

In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This amended guidance distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition, should be followed. For exchange transactions, Topic 606, Revenue from Contracts with Customers, should be followed. In addition, once a transaction is deemed to be a contribution, this amended guidance assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. The guidance should be applied on a modified prospective basis. As a resource recipient, the guidance will be effective for the PSPCA for the year ending December 31, 2019.

As a resource provider, the guidance will be effective for the PSPCA for the year ending December 31, 2020. Early adoption is permitted.

Subsequent Events

In preparing these financial statements, the PSPCA has evaluated events and transactions for potential recognition or disclosure through September 23, 2019, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK INVOLVING CASH

The PSPCA maintains cash balances at various financial institutions. The Federal Deposit Insurance Corporation insures balances up to $250,000 at each institution. At times, the PSPCA may have cash balances on deposit in excess of the federally insured limit.

NOTE 3 GRANTS RECEIVABLE AND PROMISES TO GIVE

The PSPCA has unconditional grants and promises to give from several contributors for multi-year periods. Amounts to be received in excess of one year have been discounted to the net present value at 4.80%. Unconditional promises to give at December 31, 2018 are as follows:

Receivable Less Than One Year	$ 391,762
Receivable One to Four Years	734,250
Total Grants Receivable and Unconditional Promises to Give	1,126,012
Less:	
Discount on Net Present Value	(66,742)
Net Grants Receivable and Unconditional Promises to Give	$ 1,059,270

NOTE 4 PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

	2018	2017
Land	$ 788,296	$ 788,296
Buildings, Building Improvements, and Dog Park	9,080,797	8,948,668
Leasehold Improvements	31,794	31,794
Furniture and Equipment	1,819,799	1,771,204
Transportation Equipment	688,105	688,105
Assets Held Under Capital Lease	23,383	23,383
Total	12,432,174	12,251,450
Less: Accumulated Depreciation	6,065,165	5,693,246
Total Property and Equipment	$ 6,367,009	$ 6,558,204

Depreciation expense was $371,919 and $347,793 for the years ended December 31, 2018 and 2017, respectively.

NOTE 5 PROPERTY HELD FOR SALE

On December 12, 2016, the PSPCA received a donation of property with a fair market value of $211,600, which includes a contribution of property valued at $230,000 less estimated settlement costs of $18,400. This property was held for sale at December 31, 2016. On November 22, 2017, the PSPCA sold the property for net proceeds of $215,696.

NOTE 6 INVESTMENTS AND INVESTMENT INCOME

Investments are comprised of the following:

	2018	2017
Stocks	$ 1,712,066	$ 2,461,655
Mutual Funds	1,296,562	1,793,795
Bonds	1,788,426	1,754,444
Money Market	463,826	235,848
Total	$ 5,260,880	$ 6,245,742

Investment income consists of the following for the years ended December 31:

	2018	2017
Interest and Dividends	$ 147,261	$ 155,721
Net Realized and Unrealized Gain (Loss) on Investments	(415,963)	615,656
Investment Fees	(50,663)	(52,856)
Total	$ (319,365)	$ 718,521

Dividends and interest income earned on funds restricted by donors, if any, is reported as an increase net assets with donor restrictions.

NOTE 7 FAIR VALUE MEASUREMENTS

The PSPCA uses fair value measurements to record fair value adjustments to certain assets. For additional information on how the PSPCA values all other assets refer to Note 1 – Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis as of December 31, 2018 are:

	Total	Level 1	Level 2	Level 3
Money Market Funds	$ 463,826	$ 463,826	$ -	$ -
Mutual Funds	1,296,562	1,296,562	-	-
Stocks	1,712,066	1,712,066	-	-
Bonds	1,788,426	603,091	1,185,335	-
Beneficial Interests in Perpetual Trusts Held by Third Parties	11,434,307	-	-	11,434,307
Total Investments	$ 16,695,187	$ 4,075,545	$ 1,185,335	$ 11,434,307

Assets measured at fair value on a recurring basis as of December 31, 2017 are:

	Total	Level 1	Level 2	Level 3
Money Market Funds	$ 235,848	$ 235,848	$ -	$ -
Mutual Funds	1,793,795	1,793,795	-	-
Stocks	2,461,655	2,461,655	-	-
Bonds	1,754,444	155,823	1,598,621	-
Beneficial Interests in Perpetual Trusts Held by Third Parties	12,900,121	-	-	12,900,121
Total Investments	$ 19,145,863	$ 4,647,121	$ 1,598,621	$ 12,900,121

Level 3 Assets

The following table represents a summary of changes in the fair value of the PSPCA's Level 3 assets for the year ended December 31, 2018:

	Beneficial Interests in Perpetual Trusts Held by Third Parties
Beginning Balance at January 1, 2018	$ 12,900,121
Decrease in Fair Value Included in Change in Net Assets	(1,465,814)
Ending Balance at December 31, 2018	$ 11,434,307

The following table represents a summary of changes in the fair value of the PSPCA's Level 3 assets for the year ended December 31, 2017:

	Beneficial Interests in Perpetual Trusts Held by Third Parties
Beginning Balance at January 1, 2017	$ 11,876,600
Increase in Fair Value Included in Change in Net Assets	1,023,521
Ending Balance at December 31, 2017	$ 12,900,121

NOTE 8 ENDOWMENT ACTIVITY

The purpose of PSPCA's investment funds is to build and protect capital for future obligations while supporting current operations through a total return investment strategy and a spending policy set to maintain, and ideally increase, the purchasing power of the endowment and investments, without putting the principal value of these funds at imprudent risk.

The endowment funds and investments of the PSPCA shall be invested in a portfolio of funds which will provide an opportunity to optimize inflation-adjusted total returns within acceptable levels of risk and volatility. Consistent rebalancing to the target allocations will ensure a long term, low risk, prudent strategy. The board of directors of the PSPCA is responsible for overseeing the endowment and investment assets, establishing a recommended investment policy, selecting and de-selecting investment managers, setting performance objectives and monitoring performance in meeting these objectives.

The investment goals for all investment funds of the PSPCA: (1) meet short-term and long-term distribution requirements of endowment and investment funds, (2) provide sufficient liquidity to meet distribution requirements, and (3) earn competitive returns relative to capital market measures. Investment goals and performance are to be computed net of investment management and independent investment consultant fees, and will be measured against established industry benchmarks weighted in line with the long-term strategic asset allocation.

An endowment is an established fund of cash, securities, or other assets to provide income for the maintenance of the PSPCA. The use of the assets of the fund have been restricted to support certain programs and or locations that have been designated by the donor. Endowment funds are generally established by donor-restricted gifts or bequests to provide a permanent source of income, or a term endowment, which is to provide income for a specific period. A board-designated endowment, which results from an internal designation, is not donor restricted and is classified as net assets without donor restrictions.

NOTE 8 ENDOWMENT ACTIVITY (CONTINUED)

A summary of the endowment activity by net asset class for the year ended December 31, 2018 is as follows:

	With Donor Restrictions	With Donor Restrictions in Perpetuity	Total
Endowment Assets, Beginning of Year	$ 3,419,283	$ 531,165	$ 3,950,448
Investment Return:			
Interest and Dividends, Net of Investment Fees	56,678	-	56,678
Net Realized and Unrealized Losses	(281,760)	-	(281,760)
Total Investment Return	(225,082)	-	(225,082)
Distributions of Endowment Income	(103,748)	-	(103,748)
Endowment Assets, End of Year	$ 3,090,453	$ 531,165	$ 3,621,618

A summary of the endowment activity by net asset class for the year ended December 31, 2017 is as follows:

	With Donor Restrictions	With Donor Restrictions in Perpetuity	Total
Endowment Assets, Beginning of Year	$ 3,244,601	$ 531,165	$ 3,775,766
Investment Return:			
Interest and Dividends, Net of Investment Fees	56,604	-	56,604
Net Realized and Unrealized Gains	350,366	-	350,366
Total Investment Return	406,970	-	406,970
Distributions of Endowment Income	(232,288)	-	(232,288)
Endowment Assets, End of Year	$ 3,419,283	$ 531,165	$ 3,950,448

The PSPCA also held investments that do not meet the definition of endowment assets totaling $1,639,262 and $2,295,294 at December 31, 2018 and 2017, respectively.

NOTE 9 BENEFICIAL INTERESTS IN PERPETUAL TRUSTS HELD BY OTHERS

Beneficial interests in perpetual trusts held by third parties represents the PSPCA's proportionate share of the fair value of assets contributed to several trusts from which the PSPCA has the irrevocable rights to receive income earned in perpetuity. Because the PSPCA does not have the right to receive the assets in these trusts, the original contribution and subsequent changes in fair value have been reported as net assets with donor restrictions. The PSPCA receives disbursements from the perpetual trusts, which are reported as trusts revenue and included in the change in net assets without donor restrictions unless use of the disbursement is limited by donor-imposed restrictions. Additionally, from time to time the PSPCA will receive disbursements from other trusts where the PSPCA does not have a beneficial interest. These disbursements are also reported as trusts revenue and included in the change in net assets without donor restrictions unless use of the disbursements is limited by donor-imposed restrictions.

For the year ended December 31, 2018, disbursements from trusts reported as revenue amounted to $574,021, of which $571,671 relates to perpetual trusts in which the PSPCA has a beneficial interest. For the year ended December 31, 2017, disbursements from trusts reported as revenue amounted to $594,463, of which $566,613 relates to perpetual trusts in which the PSPCA has a beneficial interest.

NOTE 10 LINE OF CREDIT

On October 5, 2017, the PSPCA entered into an agreement to change the terms of the existing line of credit agreement, to increase the line of credit to $950,000 and to increase the limit for cash advances from $500,000 to $750,000. This agreement has an expiration date of September 1, 2018, which has renewed for an additional term expiring September 1, 2019.

There were no outstanding borrowings under the line as of December 31, 2018 and 2017. The interest rate on borrowings under the line of credit was increased from 4.50% to 5.50% as of December 31, 2018. Interest expense related to the line of credit was $23,485 and $14,405 for the years ended December 31, 2018 and 2017, respectively.

NOTE 11 CHARITABLE GIFT ANNUITY

The PSPCA has received contributions without donor restrictions of cash in exchange for annuities payable to the donors.

The PSCPA paid $1,516 and $860 of annuity payments in 2018 and 2017, respectively. In 2018, and thereafter, $2,400 is payable annually to the donors.

The PSPCA computes the present value of the annuity payable using the life expectancy of the donors and the discount rates in effect at the date the gift was received, which was 6.2% and 2.6% in 2018 and 2017, respectively.

NOTE 11 CHARITABLE GIFT ANNUITY (CONTINUED)

The total liability related to the charitable gift annuities was $31,519 and $20,931 at December 31, 2018 and 2017, respectively.

NOTE 12 POSTRETIREMENT HEALTH BENEFIT PLAN

The PSPCA sponsors a noncontributory defined benefit postretirement medical benefit plan covering certain retired employees. Benefits are limited to certain defined amounts, and are payable under terms negotiated with each beneficiary. The plan is not currently funded and is subject to modification at the PSPCA's discretion, subject to certain limitations.

The PSPCA follows the accounting standards for postretirement benefits other than pensions, which requires the employer to recognize the funded status of the plan or the difference between the fair value of plan assets and the postretirement benefit obligation on the balance sheet. The PSPCA recognizes the change in postretirement benefit obligation of the unfunded plan in net assets without donor restrictions.

NOTE 13 CAPITAL LEASE OBLIGATION

The PSPCA is the lessee of medical equipment under a capital lease expiring on December 31, 2021. The lease requires the PSPCA to make 72 monthly payments of $363, including an interest rate of 3.75%. This lease has a bargain purchase option where at the end of this lease the PSPCA can purchase this equipment for $1. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are being depreciated over their estimated useful lives. Depreciation of the assets under capital leases is included in depreciation expense.

The following is a summary of the equipment held under a capital lease:

	2018	2017
Medical Equipment	$ 23,383	$ 23,383
Less: Accumulated Depreciation	11,733	7,836
Total Medical Equipment	$ 11,650	$ 15,547

Minimum future lease payments under a capital lease as of December 31, 2018 are:

Year Ending December 31	Amount
2019	$ 4,353
2020	4,353
2021	4,353
Total Minimum Lease Payments	13,059
Less: Amount Representing Interest	727
Present Value of Minimum Lease Payments	$ 12,332

NOTE 14 OPERATING LEASES

The PSPCA leases the Fishtown satellite location space as well as certain office equipment under lease obligations which have been classified as operating leases. The leases require monthly payments in varying amounts.

The following are the minimum payments, as of December 31, 2018, required under the leases:

Year Ending December 31	Amount
2019	$ 124,170
2020	84,082
2021	65,204
2022	61,048
2023	15,485
Total	$ 349,989

For the years ended December 31, 2018 and 2017 equipment and facility rental expense for all operating leases was $162,578 and $117,510, respectively.

NOTE 15 CONTRIBUTIONS – IN-KIND

Contributions of in-kind assets are recorded at their fair values in the period received. Donated services are recognized as in-kind contributions. Donated services are recognized if the services provided require specialized skills or are provided by individuals who possess skills that would typically need to be purchased if not provided by donation. Donated materials are recognized at the estimated fair value at the date of receipt. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses.

The following is a summary of the in-kind contributions received by the PSPCA during the years ended December 31, 2018 and 2017. The in-kind contributions have been recorded as revenue and are also included as expenses where applicable in the statement of activities.

	2018	2017
Donated Legal Services	$ 551,731	$ 239,506
Donated Other Services	5,381	133,334
Donated Improvements, Equipment and Vehicles	-	92,373
Donated Goods	78,856	35,845
Total	$ 635,968	$ 501,058

NOTE 16 403(B) THRIFT PLAN

The PSPCA has a defined contribution 403(b) thrift plan that is subject to the provisions of the Employment Retirement Income Security Act of 1974 (ERISA) and covers all employees (except leased employees, nonresident aliens and employees covered by a collective bargaining agreement). The PSPCA pays the administrative expenses of the plan. On September 1, 2012, the PSPCA began making employer matching contributions equal to 25% of the employee's salary reduction contributions limited to the first 6% for employees who are at least 21 years of age and have either completed one year of service with the PSPCA or have been previously employed by another organization in the nonprofit health or social service field. For the years ended December 31, 2018 and 2017, the PSPCA had contributed, net of forfeitures to the plan, $20,414 and $13,558, respectively, to the 403(b) thrift plan.

NOTE 17 LITIGATION

The PSPCA periodically finds itself a defendant in legal suits that have developed in the normal course of business. The PSPCA maintains both liability and umbrella insurance with limits of coverage which management believes to be more than adequate to cover any potential claims. Accordingly, the PSPCA has not accrued any claims liability as of and for the years ended December 31, 2018 and 2017.

NOTE 18 HUMANE LAW ENFORCEMENT

The PSPCA performs its humane law enforcement activities under Pennsylvania statutes governing Humane Society Police Officers, and operates under the supervision of the Pennsylvania Secretary of Agriculture.

Neither the PSPCA nor its humane law enforcement officers are granted the same "qualified immunity" which attaches to federal, state, and municipal law enforcement officers in the conduct of their official duties. With the passage of the Comprehensive Animal Cruelty Act 10 (formerly HB 1238) in Pennsylvania in June 2017, civil immunity is now provided for Humane Society Police Officers and Veterinarians. However, the PSPCA may still be exposed to litigation arising from claims relating to its humane law enforcement function at the Federal level. The PSPCA believes it has adequately insured those risks.

NOTE 19 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2018 and 2017:

	2018	2017
Subject to Expenditure for Specific Purpose:		
Land, Buildings, Vehicles, and Equipment	$ 195,668	$ 198,851
Program Support in Specific Pennsylvania Counties	3,166,503	3,479,773
Humane Law Enforcement and Litigation Support	1,801	23,301
Spay and Neuter and Public Veterinary Care Support	-	1,906
Adoptions, Lifesaving, and Shelter Hospital Support	2,415	52,289
Other Program Support	898,597	38,930
Restricted for Use in Future Periods	123,445	236,118
Not Subject to Appropriation or Expenditures:		
Permanent Endowments	531,165	531,165
Beneficial Interests in Perpetual Trusts Held by Third Parties (Note 9)	11,434,307	12,900,121
Total	$ 16,353,901	$ 17,462,454

NOTE 20 NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by donors as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Purpose Restriction Accomplished:		
Land, Buildings, Vehicles, and Equipment	$ 14,546	$ 210,022
Program Support in Specific Pennsylvania Counties	245,898	682,309
Humane Law Enforcement and Litigation Support	224,585	57,807
Spay and Neuter and Public Veterinary Care Support	-	94
Adoptions, Lifesaving, and Shelter Hospital Support	-	26,152
Other Program Support	726,514	836,992
Restricted for Use in Future Periods	67,995	88,699
Total	$ 1,279,538	$ 1,902,075

NOTE 21 CITY OF LANCASTER FACILITY

The PSPCA began operating in a facility provided and maintained by the City of Lancaster on August 28, 2017 to fulfill the contractual obligations of the former tenant to the City of Lancaster and numerous Lancaster County municipalities through December 31, 2017. In that connection, the PSPCA provided stray dog services to the City of Lancaster and the contracted Lancaster County municipalities in accordance with the provisions of Pennsylvania Dog Law, 3 P.S. Section 211, et seq., as amended, the Code of the City of Lancaster, and other applicable laws and regulations.

The PSPCA received an agreed fee per stray dog intake in connection with the providing stray dog services to the contracted Lancaster County municipalities. In exchange for the PSPCA's provision of stray dog services to the City of Lancaster, the City of Lancaster provided to PSPCA the use of the facility as well as water, sewer and electric utilities. Management estimated the fair market value of the facility and related utilities to record stray dog revenue and corresponding lease expense for the period in which the PSPCA operated the facility during 2017 based on current lease rates per square foot for warehouse properties in Lancaster County and the pro-rated actual utility costs provided by the City of Lancaster for the full year 2017. The pro-rated estimated fair market value of revenue and lease expense for 2017 was $22,783.

On January 2, 2018, the PSPCA and the City of Lancaster entered into an Agreement for Animal Shelter Management and Animal Control Services for the period January 1, 2018 through December 31, 2019, to memorialize and continue the arrangement in place during 2017. In addition, the PSPCA had entered into contracts with numerous municipalities within the County of Lancaster, in 2018, to continue providing stray dog services from the City of Lancaster facility on a fee for service basis. PSPCA has recognized $33,660 in revenues from this agreement for the year ended December 31, 2018.

NOTE 22 RELATED PARTY

Advances to the PSPCA from Main Line Rescue, Inc. dba: Main Line Animal Rescue (Subsidiary) are unsecured, with no set payment terms, and generally noninterest bearing. Advances to the PSPCA from the Subsidiary at December 31, 2018 were as follows:

	2018	2017
Main Line Animal Rescue, Inc.		
dba: Main Line Animal Rescue	$ 9,157	$ -
Total Advances to Subsidiary	$ 9,157	$ -

As part of its affiliation agreement, the PSPCA will provide both management and administrative support to its Subsidiary and its charitable purpose and mission. Costs expended on behalf of its Subsidiary are reimbursed. For the year ended December 31, 2018, the PSPCA had recognized $99,183 in the reimbursement for those services. This amount has been included as part of other revenue in the Statement of Activities.

NOTE 22 RELATED PARTY (CONTINUED)

Commitment

On September 22, 2018, the PSPCA entered into a pledge agreement with a donor to support the activities of both PSCPA and its Subsidiary in protecting animals, preventing cruelty and improving the health and quality of life for animals throughout the Commonwealth of Pennsylvania. As part of this agreement, the PSPCA will receive a total of $925,000 in four annual payments of $231,250 beginning January 31, 2019. The donor has restricted the usage of this pledge to be a reimbursement for principal and interest paid by its Parent on its Subsidiary's line of credit with a bank until the line of credit has been paid in full (the "Pledged" amount). For the year ended December 31, 2018, the PSPCA has recognized the entire pledge, which has been included as part of the PSCPA's grant receivable and promises to give see Note 3.

NOTE 23 LIQUIDITY

The PSPCA has approximately $2,250,271 of financial assets available within one year of the balance sheet date consisting of cash of $122,033, grants receivable, bequest and promises to give of $391,762, other receivables of $15,026, and investments of $2,165,223. None of the financial assets is subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Grants receivable and promises to give and bequest receivable are subject to time or purpose restrictions, but will be collected within one year. The PSPCA has a goal to maintain financial assets, which consist of cash, bequest receivable, and cash equivalents held in the PSPCA's investment account on hand to meet 30 days of normal operating expenses, which are, on average approximately $955,000.

As part of its liquidity management, the PSPCA invests cash in excess of daily requirements in various investment funds held by the PSPCA's third party investment brokerage house, which include cash equivalents, treasury, government and corporate bonds, and equities. These funds can be easily accessed by the PSPCA. As more fully described in Note 10, the PSPCA also has a line of credit agreement in the amount of $950,000 with a limit for cash advances $750,000, which the PSPCA did not have an outstanding balance as of December 31, 2018.

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