

The Pennsylvania Society for the Prevention of Cruelty to Animals and Subsidiary

Consolidated Financial Statements
Year Ended December 31, 2022



1835 Market Street, 3rd Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
The Pennsylvania Society for the Prevention of Cruelty to Animals
and Subsidiary
Philadelphia, Pennsylvania**

Opinion

We have audited the accompanying financial statements of The Pennsylvania Society for the Prevention of Cruelty to Animals and Subsidiary, (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated 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 and Subsidiary as of December 31, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 2 of the financial statements, on January 1, 2022, The Pennsylvania Society for the Prevention of Cruelty to Animals adopted ASU 2016-02, Leases (Topic 842). Our opinion is not modified in respect to that matter.

Basis for Opinion

We conducted our audit in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of The Pennsylvania Society for the Prevention of Cruelty to Animals and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Pennsylvania Society for the Prevention of Cruelty to Animals and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Philadelphia, Pennsylvania
January 18, 2024

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,435,783
Accounts receivable, net and other receivables	368,655
Grants receivable and promises to give	176,461
Inventory	96,586
Prepaid expenses and other assets	111,247
Total current assets	3,188,732
INVESTMENTS	4,801,478
PROPERTY AND EQUIPMENT, NET	9,210,774
OTHER ASSETS	
Right to use asset	189,260
Beneficial interests in perpetual trusts held by third parties	12,157,576
Total other assets	12,346,836
Total assets	\$ 29,547,820
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 745,418
Lease liability	64,241
Charitable gift annuity	2,727
Economic Injury Disaster Loan	7,528
Total current liabilities	819,914
LONG-TERM LIABILITIES	
Postretirement health benefits obligation	209,840
Lease liability, net of current portion	125,019
Charitable gift annuity	28,488
Economic Injury Disaster Loan	281,560
Total long-term liabilities	644,907
Total liabilities	1,464,821
NET ASSETS	
Without donor restrictions	14,410,482
With donor restrictions	13,672,517
Total net assets	28,082,999
Total liabilities and net assets	\$ 29,547,820

See accompanying notes

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Program revenue	\$ 3,023,497	\$ -	\$ 3,023,497
Municipal contract stray revenue	32,850	-	32,850
Contributions	3,141,524	289,000	3,430,524
Contributions - in-kind	478,395	-	478,395
Bequests	2,873,336	502,059	3,375,395
Trusts	626,668	17,590	644,258
Grants	669,523	-	669,523
Special events, net of expenses of \$245,875	1,432,714	19,269	1,451,983
Interest and dividends, net of investment fees	61,761	9,373	71,134
Net realized and unrealized loss on investments	(524,033)	(56,864)	(580,897)
Other revenue	32,628	-	32,628
Decrease in fair value of beneficial interests in perpetual trusts held by third parties	-	(3,156,089)	(3,156,089)
Net assets released from restrictions	232,114	(232,114)	-
Total revenue and support	12,080,977	(2,607,776)	9,473,201
EXPENSES			
Program services			
Humane law enforcement and litigation	1,346,140	-	1,346,140
Spay and neuter and public veterinary care	2,738,861	-	2,738,861
Adoptions, lifesaving and shelter hospital	5,342,293	-	5,342,293
Humane education	253,726	-	253,726
Rescue, rehabilitation and placement	951,446	-	951,446
Supporting services			
Management and general	736,739	-	736,739
Fundraising	1,503,654	-	1,503,654
Total expenses	12,872,859	-	12,872,859
CHANGE IN NET ASSETS	(791,882)	(2,607,776)	(3,399,658)
NET ASSETS			
Beginning of year	15,202,364	16,280,293	31,482,657
End of year	\$ 14,410,482	\$ 13,672,517	\$ 28,082,999

See accompanying notes

**THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2022

	Program Expenses					Supporting Expenses				
	Humane Law Enforcement and Litigation	Spay and Neuter and Public Veterinary Care	Adoptions, Lifesaving and Shelter Hospital	Humane Education	Rescue, Rehabilitation and Placement	Total Program Expenses	Management and General	Fundraising	Total Support Expenses	Total Expenses
Employment expenses	\$ 932,138	\$ 1,705,414	\$ 3,333,558	\$ 171,055	\$ 481,223	\$ 6,623,388	\$ 542,381	\$ 1,116,011	\$ 1,658,392	\$ 8,281,780
Animal care expenses	25,941	553,310	572,972	15,398	164,600	1,332,221	303	2,819	3,122	1,335,343
Office and technology expenses	11,390	21,732	38,873	9,330	20,884	102,209	6,541	26,069	32,610	134,819
Utilities	26,918	81,014	198,770	4,549	53,154	364,405	12,032	51,467	63,499	427,904
Facilities and vehicle expenses	105,344	58,264	164,089	1,691	92,950	422,338	2,332	3,338	5,670	428,008
Professional services	162,901	117,426	213,698	21,080	-	515,105	108,887	68,819	177,706	692,811
Development and marketing expenses	21,514	22,388	25,448	21,790	-	91,140	2,293	165,031	167,324	258,464
Leased equipment and facility	8,901	39,930	64,881	3,761	5,102	122,575	4,421	4,937	9,358	131,933
Bank, credit card and payroll fees	5,743	60,708	43,837	1,591	20,715	132,594	8,797	47,725	56,522	189,116
Bad debt expense	-	7,687	-	-	-	7,687	-	-	-	7,687
Travel, meals, entertainment and other	3,361	5,106	431,054	1,202	1,658	442,381	5,927	10,689	16,616	458,997
Depreciation	41,989	65,882	255,113	2,279	111,160	476,423	42,825	6,749	49,574	525,997
Total expenses	\$ 1,346,140	\$ 2,738,861	\$ 5,342,293	\$ 253,726	\$ 951,446	\$ 10,632,466	\$ 736,739	\$ 1,503,654	\$ 2,240,393	\$ 12,872,859

See accompanying notes

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (3,399,658)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities	
Depreciation	525,997
Bad debt expense	7,687
Net realized and unrealized (gains) losses on investments	580,897
(Increase) decrease in fair value of beneficial interests in perpetual trusts held by third parties	3,156,089
(Increase) decrease in	
Accounts receivable, net and other receivables	(360,323)
Grants receivable and promises to give	135,175
Inventory	(2,122)
Right to use asset	(189,260)
Prepaid expenses and other assets	(63,440)
Increase (decrease) in	
Accounts payable and accrued expenses	(142,817)
Lease liability	189,260
Charitable gift annuity	(5,057)
Postretirement health benefits obligation	20,605
Net cash provided by (used by) operating activities	<u>453,033</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of property and equipment	(162,450)
Purchase of investments	(356,697)
Proceeds from sale of investments	196,495
Net cash provided by (used by) investing activities	<u>(322,652)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on Economic Injury Disaster Loan	(7,324)
Net change in cash and cash equivalents	123,057

CASH AND CASH EQUIVALENTS

Beginning of year	2,312,726
End of year	<u>\$ 2,435,783</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	<u>\$ 8,060</u>
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See accompanying notes

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

(1) NATURE OF ACTIVITIES

The Pennsylvania Society for the Prevention of Cruelty to Animals and Subsidiary includes The Pennsylvania Society for the Prevention of Cruelty to Animals (the "**PSPCA**") and Main Line Rescue, Inc. d/b/a Main Line Animal Rescue ("**MLAR**"), collectively, the Organization.

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.

Main Line Rescue, Inc. d/b/a Main Line Animal Rescue is a Pennsylvania nonprofit corporation, specializing in the rescue and placement of abused, unwanted and abandoned companion animals. MLAR never discriminates on the basis of health, age or breed. By involving and educating the community, MLAR works to raise the public's awareness of the plight of homeless animals as well as to realize the benefits of adopting an animal in need. The animals are examined, vaccinated, spayed or neutered and receive any and all medical treatment before they are placed in carefully screened homes.

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

The Board of Directors of the Organization 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 Organization. The Board of Directors also has the authority to borrow money, purchase, sell or transfer property.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

(2) SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

U.S. generally accepted accounting principles ("**GAAP**") require a nonprofit organization to consolidate the financial statements of affiliated nonprofit organizations when it has (a) certain kinds of control and (b) other kinds of control coupled with an economic interest.

The accompanying financial statements include the accounts of Pennsylvania Society for the Prevention of Cruelty to Animals and Main Line Rescue, Inc. d/b/a Main Line Animal Rescue (collectively the "**Organization**"). Intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. As a result, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the following classes of net assets:

Without donor restrictions

Net assets that are not subject to donor-imposed restrictions.

With donor restrictions

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the Organization and/or the passage of time. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as "**net assets released from restrictions**".

Also included in this category are net assets subject to donor-imposed restrictions that require the net assets be maintained indefinitely while permitting the Organization to expend the income generated in accordance with the provisions of the contribution.

Accounting Estimates

In preparing financial statements in conformity with GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Concentration of Credit Risk

Cash is a financial instrument which potentially subjects the Organization to a concentration of credit risk. The Organization maintains cash deposits at a high-quality bank. At times, such deposits may exceed federally-insured limits. Accounts receivable and other receivables and grants receivable and promises to give also subject the Organization to concentration of credit risk.

Accounts Receivable

The Organization 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.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Management has established an allowance for doubtful accounts of \$166,519 as of December 31, 2022.

Inventory

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

Property and Equipment

Land owned by the Organization is stated at cost, if purchased. Property and equipment are capitalized and recorded at cost, if purchased. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. The Organization capitalizes assets purchased with a cost greater than \$2,500, as described in the Organization'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 Organization records contributed assets at their fair value as of the date of contribution.

The estimated useful lives for depreciation are:

Buildings and dog park	39-50 years
Building improvements	10-39 years
Furniture and equipment	5-10 years
Transportation equipment	4 years
Leasehold improvements	5 years
Website	5 years

Investments

Investments are recorded in the statement of financial position at fair value, as determined based on quoted market prices. The net changes in fair value and the realized gains and losses on investments sold are reflected in the statement of activities as net realized and unrealized gains or losses on investments.

The Organization invests in a professional-managed portfolio that contains various types of securities (**See Note 6**). Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect the investment balances and the amounts reported in the financial statements.

Beneficial Interest in Perpetual Trusts Held by Third Parties

Beneficial interest in perpetual trusts held by third parties represents the Organization's proportionate share of the fair value of assets contributed to several trusts from which the Organization has the irrevocable rights to receive income earned in perpetuity. Because the Organization 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 Organization 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 Organization will receive disbursements from other trusts where the Organization 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.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Organization's own assumptions.

Beneficial interest in perpetual trusts held by third parties is valued in the fair value hierarchy using Level 3 inputs. Decrease in the value of the beneficial interest during the year ended December 31, 2022 was \$(3,156,089). The balance of the beneficial interest in perpetual trusts held by third parties as of December 31, 2022 is \$12,157,576.

Charitable Gift Annuity

Contributions of charitable gift annuities, held by Organization, are recorded at fair value of the related assets, and liabilities under the charitable gift annuities are recorded at the present value of the estimated payments to the beneficiaries. Estimated life expectancy is determined using IRS mortality rates. The liabilities are adjusted annually for amortization of discount and changes in actuarial assumptions. These adjustments are recorded as changes in the value of charitable gift annuities. The Organization records the present value of the estimated payments to beneficiaries discounted at a 6.2% rate.

Post-Retirement Health Benefits Obligation

The PSPCA sponsors a noncontributory defined post-retirement 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 statement of financial position. The PSPCA recognizes the change in postretirement benefit obligation of the unfunded plan in net assets without donor restrictions.

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Revenue Recognition

Program revenues are recognized as revenue when the services are provided to the clients. Program revenue is made up of mainly sales of goods, adoption fees, medical procedures, medications, examination and other veterinary care. Performance obligations are determined based on the nature of the services provided. The Organization recognizes revenue for performance obligations satisfied over time based on actual charges incurred in relation to the total expected charges. Generally, performance obligations satisfied over time relate to animals receiving inpatient care. The Organization measures performance obligations from admission to the point when there are no further services required for the animal, which is generally the time of discharge. The Organization recognizes revenues for performance obligations satisfied at a point in time, which generally relate to animals receiving outpatient or same day services when: (1) the services are provided and (2) when it is believed the animal does not require additional services.

Contributions, bequests, trusts and grants received are recorded as net assets without donor restrictions or with donor restrictions depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions, bequests, trusts, promises to give and grants whose restrictions are satisfied in the same period are reported as net assets without donor restrictions. Contributions, bequests, trusts and grants that are expected to be collected within one year are recorded at their net realizable value.

Unconditional contributions, bequests, trusts and grants are recognized as revenue when the related promise to give is received. Conditional contributions, bequests, trusts and grants – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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. The Organization receives notification from various estates that the Organization may be a beneficiary of the final distribution of assets. Due to the uncertainty of these distributions and inability of management to estimate their value, they are considered conditional and are not included as revenue when notification is received.

The Organization receives 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.

The Organization holds special fundraising events throughout the year. The Organization records special events revenue when the event takes place. Any amounts received in advance are deferred until the date of the event.

In-kind Contributions and Donated Services

The Organization records donated services that create or enhance nonfinancial assets and that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Organization records the value of contributed goods when there is an objective basis available to measure their value.

Contributions-in-kind are included as support in the accompanying statement of activities at their estimated values at the time received.

A substantial number of volunteers have donated time to the activities of the Organization. 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

THE PENNSYLVANIA SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

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).

The PSPCA receives an agreed fee per stray dog intake in connection with providing stray dog services to the contracted Lancaster County municipalities. In exchange for the PSPCA's services, the City of Lancaster allows the PSPCA to use the shelter and there is no charge for utilities. Management estimates the fair market value of the facility and related utilities based on current lease rates per square foot for warehouse properties in Lancaster County and the pro-rated actual utility costs as provided by the City of Lancaster. The estimated fair market value of revenue and lease expense for the year ended December 31, 2022 was \$54,898 and is included on the statement of activities in program revenue and functional expenses in leased equipment and facility.

Functional Allocation of Expenses

The costs of providing various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of that functional area. Expenses not directly attributable to a specific functional area are allocated. Significant 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 have been allocated based on estimates of time and effort.

Income Tax Status

The Internal Revenue Service has classified the PSPCA and MLAR as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("**Code**"); as an organization, contributions to which are deductible under Section 170(c) of the Code; and as an organization that is not a private foundation as defined in Section 509(a) of the Code. As a result, no provision or liability for income taxes is included in the accompanying financial statements.

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain income tax positions taken on their tax returns. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. The Organization believes that it had no uncertain tax positions as defined in GAAP.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (Topic 842) and subsequent amendments to the initial guidance (collectively, "**Topic 842**"). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. This guidance was effective for the Organization in 2022, with early application permitted. The Organization adopted this standard using the modified retrospective approach. The results for reporting periods after January 1, 2022 are presented under Topic 842, while prior periods have not been adjusted.

The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification. The Organization has also elected the practical expedient to not separate lease components from non-lease components. As a result of the adoption of Topic 842, the Organization recognized \$240,465 in lease liabilities and right-to-use asset in the statement of financial position as of January 1, 2022. There was no impact on net assets.

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(3) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets as of the statement of financial position date, which has been reduced by financial assets not available within one year.

Cash and cash equivalents	\$ 2,435,783
Accounts receivable, net and other receivables	368,655
Grants receivable and promises to give	176,461
Investments	<u>4,801,478</u>
Total financial assets	7,782,377
Less: financial assets not available for general expenditures within one year	
Restricted by donors for specific purposes or periods	(541,889)
Restricted by donors to be held in perpetuity	<u>(973,052)</u>
Total financial assets available within one year	<u>\$ 6,267,436</u>

Liquidity Management

The Organization has a goal to maintain financial assets, which consist of cash, bequest receivable and cash equivalents held in the Organization's investment account on hand to meet 30 days of normal operating expenses, which are, on average, approximately \$1,100,000.

As part of its liquidity management, the Organization invests cash in excess of daily requirements in various investment funds held by the Organization'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 Organization. As more fully described in Note 7, the Organization also has a line of credit agreement in the amount of \$950,000 with a limit for cash advances of \$780,000. The Organization did not have an outstanding balance as of December 31, 2022 on the line of credit.

(4) GRANTS RECEIVABLE AND PROMISES TO GIVE

Grants receivable and promises to give at December 31, 2022 are as follows:

Receivable in less than one year	<u>\$ 176,461</u>
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Grants receivable and promises to give are measured at fair value using the income approach using level 2 (other significant observable inputs) valuation inputs.

(5) PROPERTY AND EQUIPMENT

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

Land	\$ 828,536
Buildings, building improvements and dog park	13,087,826
Leasehold improvements	31,794
Furniture and equipment	2,636,389
Transportation equipment	857,191
Website	<u>54,857</u>
	17,496,593
Less: Accumulated depreciation	<u>(8,285,819)</u>
	<u>\$ 9,210,774</u>

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Depreciation expense was \$525,997 for the year ended December 31, 2022.

(6) INVESTMENTS

Investments at December 31, 2022 are comprised of the following:

Money market	\$ 525,042
Certificates of deposit	150,000
Mutual funds - equities	193,334
Common stock	2,259,117
Fixed income	
U.S. Treasury bonds	137,495
Corporate bonds	1,130,251
Municipal bonds	99,594
Exchange-traded funds	
Fixed income	306,645
	<u>\$ 4,801,478</u>

All investments held as of December 31, 2022 were measured at fair value on a recurring basis using Level 1 inputs, except for fixed income securities and certificates of deposit which were measured using Level 2 inputs.

(7) LINE OF CREDIT

The PSPCA has a line of credit agreement with Republic Bank in the amount of \$950,000, of which up to \$750,000 can be utilized as a cash advance. This agreement has an expiration date of February 1, 2024. There were no outstanding borrowings under the line as of December 31, 2022. The interest rate on borrowings under the line of credit was 3.25% as of December 31, 2022.

The PSPCA has two letters of credit with Republic Bank in the amounts of \$50,000 and \$150,000, respectively. These agreements have an expiration date of February 1, 2024. There were no outstanding borrowings under the letters of credit as of December 31, 2022. The interest rate on borrowings under the letters of credit was 4.50% as of December 31, 2022.

(8) LOAN PAYABLE- ECONOMIC INJURY DISASTER LOAN PROGRAM

In June 2020, the PSPCA and MLAR each received an unsecured loan in the amount of \$150,000 from the Small Business Administration under the economic injury loan program. Pursuant to the terms of the agreement, monthly payments of principal and interest in the amount of \$641 began in June 2021 and are payable each month through May 2050. The loans bear interest at a rate of 2.75% per annum.

The loan payable matures as follows:

<u>Year ending December 31,</u>	
2023	\$ 7,528
2024	7,738
2025	7,954
2026	8,176
2027	8,402
Thereafter	<u>249,290</u>
	<u>\$ 289,088</u>

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(9) CONTRIBUTIONS – IN-KIND

The following is a summary of the in-kind contributions received by the Organization during the year ended December 31, 2022. The in-kind contributions have been recorded as revenue in the statement of activities and are also included as programs expenses in the statements of activities and functional expenses.

Donated legal services	\$ 52,363
Donated goods	426,032
	<u>\$ 478,395</u>

(10) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes and periods:

	Balance December 31, 2021	Additions	Releases	Balance December 31, 2022
Subject to expenditure for specified purposes				
Program support in specific Pennsylvania counties	\$ 123,903	\$ 17,590	\$ -	\$ 141,493
Spay and neuter and public veterinary care support	14,039	39,000	(18,546)	34,493
Adoptions, lifesaving and shelter hospital support	27,875	269,269	(10,000)	287,144
Other program support	233,628	-	(164,567)	69,061
Restricted for use in future periods	<u>9,698</u>	<u>-</u>	<u>-</u>	<u>9,698</u>
	<u>409,143</u>	<u>325,859</u>	<u>(193,113)</u>	<u>541,889</u>
Net assets to be maintained indefinitely				
Endowment - General operations	557,485	454,568	(39,001)	973,052
Beneficial interests in perpetual trusts held by third parties	<u>15,313,665</u>	<u>(3,156,089)</u>	<u>-</u>	<u>12,157,576</u>
Total net assets to be maintained indefinitely	<u>15,871,150</u>	<u>(2,701,521)</u>	<u>(39,001)</u>	<u>13,130,628</u>
	<u>\$ 16,280,293</u>	<u>\$ (2,375,662)</u>	<u>\$ (232,114)</u>	<u>\$ 13,672,517</u>

(11) ENDOWMENT FUNDS

Endowment net assets are available to support the following purposes as of December 31, 2022:

Endowments to be held in perpetuity	
General operations	\$ 813,567
Veterinary salaries	159,485
	<u>\$ 973,052</u>

The Commonwealth of Pennsylvania has not adopted Uniform Prudent management of Institutional Funds Act of 2006 ("UPMIFA"). Pennsylvania state law allows nonprofit organizations to make an annual election to appropriate for spending a selected percentage between 2% and 7% of the fair value of assets related to the endowment funds. In 2021, PSPCA adopted Pennsylvania state law as well as an investment policy seeking a total return for the assets held by the PSPCA. Upon adoption, total return is to be derived from interest, dividends and net capital appreciation (both realized and unrealized). The Board of Directors selected a percentage to be appropriated for spending that is consistent with the long-term preservation of the real value of assets. This percentage for the year ended December 31, 2022 was 7% of the three-year average market value of the assets.

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The PSPCA's Board of Directors has interpreted Commonwealth of Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets to be maintained indefinitely (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Changes in the invested endowment assets for the year ended December 31, 2022 are as follows:

	With Donor Restrictions	With Donor Restrictions In Perpetuity	Total Endowment Assets
Endowment net assets, December 31, 2021	\$ -	\$ 557,485	\$ 557,485
Interest and dividends, net of investment fees	-	9,373	9,373
Net realized and unrealized gains	-	(56,864)	(56,864)
Additions		502,059	502,059
Spending policy distribution	-	(39,001)	(39,001)
Endowment net assets, December 31, 2022	<u>\$ -</u>	<u>\$ 973,052</u>	<u>\$ 973,052</u>

(12) LEASE LIABILITY

The Organization leases certain office equipment under lease obligations which have been classified as operating leases. The leases require monthly payments in varying amounts.

As of December 31, 2022, the maturities of the Organization's lease liabilities are as follows:

Year ending December 31,

2023	\$ 64,241
2024	64,241
2025	64,241
2026	16,060
Less: imputed interest	(19,523)
	<u>\$ 189,260</u>

For the year ended December 31, 2022, equipment and facility rental expense for all operating leases was \$125,931 which includes \$54,898 of expenses related to the use of Lancaster City shelter in exchange for stray dog intake services.

The weighted average remaining lease term was 3.25 years, and the weighted average discount rate was 6% as of December 31, 2022

(13) 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.

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(14) 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 and nonresident aliens). The PSPCA makes employer matching contribution equal to 25% of the employee's salary reduction contributions limited to the first 6% for employees who are at least 18 years of age and have completed one year of service with the PSPCA. For the year ended December 31, 2022, the PSPCA had contributed, net of forfeitures to the plan, \$26,020 to the 403(b) thrift plan.

(15) 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 year ended December 31, 2022.

(16) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 18, 2024, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2022 that require recognition or disclosure in the financial statements.