

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

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**THE PENNSYLVANIA SOCIETY FOR THE  
PREVENTION OF CRUELTY TO ANIMALS  
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

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, 2017 and 2016, 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, 2017 and 2016, 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
June 20, 2018

**THE PENNSYLVANIA SOCIETY FOR  
THE PREVENTION OF CRUELTY TO ANIMALS  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

<b>ASSETS</b>	2017	2016
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 431,480	\$ 139,831
Accounts Receivable, Net	29,815	24,265
Trusts Receivable	-	42,184
Grants Receivable and Promises to Give, Current Portion	186,125	152,149
Bequests and Contributions Receivable	211,176	155,487
Other Receivables	13,642	3,922
Inventory	130,473	158,137
Prepaid Expenses	190,739	200,718
Deposits	33,213	33,213
Property Held for Sale	-	211,600
Total Current Assets	1,226,663	1,121,506
<b>PROPERTY AND EQUIPMENT, NET</b>	6,558,204	6,300,648
<b>OTHER ASSETS</b>		
Investments	6,245,742	6,538,928
Beneficial Interests in Perpetual Trusts Held by Third Parties	12,900,121	11,876,600
Grants Receivable and Promises to Give, Less Current Portion	113,341	81,719
Total Other Assets	19,259,204	18,497,247
Total Assets	\$ 27,044,071	\$ 25,919,401
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 578,101	\$ 530,767
Capital Lease Obligation, Current Portion	3,813	3,675
Charitable Gift Annuity, Current Portion	1,316	860
Deferred Rent	6,018	5,011
Deferred Revenue	-	48,087
Total Current Liabilities	589,248	588,400
<b>LONG TERM LIABILITIES</b>		
Postretirement Health Benefits Obligation	299,488	353,192
Charitable Gift Annuity, Less Current Portion	19,615	13,986
Capital Lease Obligation, Less Current Portion	12,332	16,143
Total Long-Term Liabilities	331,435	383,321
Total Liabilities	920,683	971,721
<b>NET ASSETS</b>		
Unrestricted	8,660,934	8,786,931
Temporarily Restricted	4,031,168	3,752,984
Permanently Restricted	13,431,286	12,407,765
Total Net Assets	26,123,388	24,947,680
Total Liabilities and Net Assets	\$ 27,044,071	\$ 25,919,401

See accompanying Notes to Financial Statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUES AND GAINS</b>				
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	<u>7,998,320</u>	<u>2,180,259</u>	<u>1,023,521</u>	<u>11,202,100</u>
Net Assets Release from Restrictions	<u>1,902,075</u>	<u>(1,902,075)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Gains	9,900,395	278,184	1,023,521	11,202,100
<b>EXPENSES</b>				
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	<u>10,026,392</u>	<u>-</u>	<u>-</u>	<u>10,026,392</u>
<b>CHANGE IN NET ASSETS</b>	(125,997)	278,184	1,023,521	1,175,708
Net Assets - Beginning of Year	<u>8,786,931</u>	<u>3,752,984</u>	<u>12,407,765</u>	<u>24,947,680</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 8,660,934</u>	<u>\$ 4,031,168</u>	<u>\$ 13,431,286</u>	<u>\$ 26,123,388</u>

See accompanying Notes to Financial Statements.

**THE PENNSYLVANIA SOCIETY FOR  
THE PREVENTION OF CRUELTY TO ANIMALS  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUES AND GAINS</b>				
Program Revenue	\$ 2,868,562	\$ -	\$ -	\$ 2,868,562
Contributions	1,798,870	505,563	-	2,304,433
Contribution - In-Kind	618,399	-	-	618,399
Bequests	1,924,107	27,325	-	1,951,432
Trusts	427,159	155,420	-	582,579
Promises to Give	-	5,302	-	5,302
Grants	77,505	319,497	-	397,002
Special Events	640,647	197,894	-	838,541
Interest and Dividends	45,496	49,120	-	94,616
Net Realized and Unrealized Gain on Investments	104,020	124,566	-	228,586
Other Revenue	2,780	-	-	2,780
Increase in Fair Value of Beneficial Interests in Perpetual Trusts Held by Third Parties	-	-	74,298	74,298
Gain on Disposition of Equipment	865	-	-	865
<b>Total</b>	<b>8,508,410</b>	<b>1,384,687</b>	<b>74,298</b>	<b>9,967,395</b>
 Net Assets Release from Restrictions	 <b>1,646,363</b>	 <b>(1,646,363)</b>	 <b>-</b>	 <b>-</b>
 Total Support, Revenue and Gains	 <b>10,154,773</b>	 <b>(261,676)</b>	 <b>74,298</b>	 <b>9,967,395</b>
<b>EXPENSES</b>				
Program Expenses:				
Humane Law Enforcement and Litigation	2,041,138	-	-	2,041,138
Spay and Neuter and Public Veterinary Care	2,325,372	-	-	2,325,372
Adoptions, Lifesaving, and Shelter Hospital	4,095,081	-	-	4,095,081
Humane Education	204,579	-	-	204,579
Management and General	685,722	-	-	685,722
Fundraising/Development	1,242,415	-	-	1,242,415
<b>Total Operating Expenses</b>	<b>10,594,307</b>	<b>-</b>	<b>-</b>	<b>10,594,307</b>
 <b>CHANGE IN NET ASSETS</b>	 <b>(439,534)</b>	 <b>(261,676)</b>	 <b>74,298</b>	 <b>(626,912)</b>
 Net Assets - Beginning of Year	 <b>9,226,465</b>	 <b>4,014,660</b>	 <b>12,333,467</b>	 <b>25,574,592</b>
 <b>NET ASSETS - END OF YEAR</b>	 <b>\$ 8,786,931</b>	 <b>\$ 3,752,984</b>	 <b>\$ 12,407,765</b>	 <b>\$ 24,947,680</b>

See accompanying Notes to Financial Statements.

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

	Program Expenses				Total Program Expense	Management and General	Fundraising	Total Support Expense	Total Expense
	Humane Law Enforcement and Litigation	Spay and Neuter and Public Veterinary Care	Adoptions Lifesaving and Shelter Hospital	Humane Education					
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

See accompanying Notes to Financial Statements.



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

	Program Expenses				Total Program Expense	Management and General	Fundraising	Total Support Expense	Total Expense
	Humane Law Enforcement and Litigation	Spay and Neuter and Public Veterinary Care	Adoptions Lifesaving and Shelter Hospital	Humane Education					
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	<u>\$ 1,521,628</u>	<u>\$ 2,323,748</u>	<u>\$ 4,246,484</u>	<u>\$ 194,587</u>	<u>\$ 8,286,447</u>	<u>\$ 540,327</u>	<u>\$ 1,199,618</u>	<u>\$ 1,739,945</u>	<u>\$ 10,026,392</u>

See accompanying Notes to Financial Statements.

**THE PENNSYLVANIA SOCIETY FOR  
THE PREVENTION OF CRUELTY TO ANIMALS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016**

	Program Expenses				Total Program Expense	Management and General	Fundraising	Total Support Expense	Total Expense
	Humane Law Enforcement and Litigation	Spay and Neuter and Public Veterinary Care	Adoptions Lifesaving and Shelter Hospital	Humane Education					
Salaries and Wages	\$ 966,954	\$ 930,279	\$ 1,987,701	\$ 105,059	\$ 3,989,993	\$ 419,350	\$ 529,024	\$ 948,374	\$ 4,938,367
Payroll Taxes and Employee Benefits	181,227	180,454	390,990	20,097	772,768	132,637	81,137	213,774	986,542
Training and Other Employment Costs	14,821	9,618	16,045	451	40,935	324	428	752	41,687
Workers Compensation	43,592	172,394	126,447	1,205	343,638	9,061	6,032	15,093	358,731
Insurance	253,236	28,888	76,902	7,749	366,775	9,166	8,740	17,906	384,681
Medical Supplies	1,482	472,141	302,295	-	775,918	-	-	-	775,918
Other Supplies, Postage, and Shipping	10,275	24,801	191,157	8,097	234,330	7,772	25,944	33,716	268,046
Pet Food	-	2,155	99,096	-	101,251	-	-	-	101,251
Events	990	-	2,273	285	3,548	-	137,273	137,273	140,821
Leased Equipment and Facility	9,005	13,896	53,389	2,808	79,098	5,067	5,856	10,923	90,021
Direct Mail	25,625	25,625	25,625	25,625	102,500	-	167,235	167,235	269,735
Humane Services	8,555	42,678	72,669	-	123,902	-	-	-	123,902
Legal (Including In-kind) and Audit	367,945	7,143	19,377	3,855	398,320	16,408	53,172	69,580	467,900
Consulting and Contracted Services	3,228	99,762	20,581	1,341	124,912	15,425	95,403	110,828	235,740
Network and Website	1,101	6,828	9,532	197	17,658	1,869	32,983	34,852	52,510
Telephone	18,931	8,811	14,665	315	42,722	894	2,184	3,078	45,800
Utilities	9,139	27,421	144,513	810	181,883	5,515	3,691	9,206	191,089
Repairs, Maintenance, and Facilities	4,355	23,702	98,776	367	127,200	2,463	1,646	4,109	131,309
Vehicle and Transportation	62,071	2,912	29,124	389	94,496	799	1,431	2,230	96,726
Advertising (Including In-kind) and Printing	21,646	22,142	17,837	19,291	80,916	17,543	22,952	40,495	121,411

See accompanying Notes to Financial Statements.

**THE PENNSYLVANIA SOCIETY FOR  
THE PREVENTION OF CRUELTY TO ANIMALS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

	Program Expenses				Total Program Expense	Management and General	Fundraising	Total Support Expense	Total Expense
	Humane Law Enforcement and Litigation	Spay and Neuter and Public Veterinary Care	Adoptions Lifesaving and Shelter Hospital	Humane Education					
Dues, Licenses and Subscriptions	\$ 3,718	\$ 5,595	\$ 5,664	\$ 750	\$ 15,727	\$ 995	\$ 4,016	\$ 5,011	\$ 20,738
Bank, Credit Card and Payroll Fees	9,027	33,548	20,191	1,116	63,882	5,758	15,876	21,634	85,516
Bad Debt	-	14,283	-	-	14,283	-	-	-	14,283
Travel, Meals, Entertainment and Other	2,999	2,724	15,271	723	21,717	2,088	3,231	5,319	27,036
Depreciation (Including In-kind)	18,879	42,745	233,079	2,058	296,761	8,061	5,492	13,553	310,314
Interest	-	508	254	-	762	14,244	-	14,244	15,006
Grant Awards	-	122,000	89,500	800	212,300	-	-	-	212,300
Other In-Kind Expenses	2,337	2,319	32,128	1,191	37,975	10,283	38,669	48,952	86,927
Total Expense	<u>\$ 2,041,138</u>	<u>\$ 2,325,372</u>	<u>\$ 4,095,081</u>	<u>\$ 204,579</u>	<u>\$ 8,666,170</u>	<u>\$ 685,722</u>	<u>\$ 1,242,415</u>	<u>\$ 1,928,137</u>	<u>\$ 10,594,307</u>

See accompanying Notes to Financial Statements.

**THE PENNSYLVANIA SOCIETY FOR  
THE PREVENTION OF CRUELTY TO ANIMALS  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,175,708	\$ (626,912)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	347,793	310,314
Bad Debt Expense	2,290	14,283
Net Realized and Unrealized Gains on Investments	(615,656)	(228,586)
Increase in Fair Value of Beneficial Interests in Perpetual Trusts Held by Third Parties	(1,023,521)	(74,298)
Gain on Disposition of Equipment	(200)	(865)
Sale (Contribution) of Property, Leasehold Improvements and Equipment	-	(211,600)
Gain on Sale of Property, Leasehold Improvements and Equipment	(6,813)	-
(Increase) Decrease in:		
Accounts Receivable	(7,840)	(2,464)
Other Receivables	(9,720)	(2,439)
Trusts Receivable	42,184	(9,806)
Grants Receivable and Promises to Give	(65,598)	42,700
Bequests and Contributions Receivable	(55,689)	(8,247)
Inventory	27,664	4,799
Prepaid Expenses	9,979	42,219
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	47,334	(72,207)
Charitable Gift Annuity	6,085	(17,546)
Deferred Rent	1,007	1,006
Deferred Revenue	(48,087)	48,087
Postretirement Health Benefits Obligation	(53,704)	29,967
Net Cash Used by Operating Activities	(226,784)	(761,595)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Property and Equipment	(602,432)	(259,312)
Proceeds of Property, Leasehold Improvements and Equipment	215,696	-
Purchase of Investments	(1,842,486)	(1,510,474)
Proceeds from Sale of Investments	2,751,328	2,925,134
Net Cash Provided by Investing Activities	522,106	1,155,348
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on Line of Credit	-	-
Repayment on Line of Credit	-	(350,000)
Payments of Capital Lease Obligation	(3,673)	(3,564)
Net Cash Used by Financing Activities	(3,673)	(353,564)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	291,649	40,189

See accompanying Notes to Financial Statements.

**THE PENNSYLVANIA SOCIETY FOR  
THE PREVENTION OF CRUELTY TO ANIMALS  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

	<u>2017</u>	<u>2016</u>
Net Increase in Cash and Cash Equivalents - Forwarded	\$ 291,649	\$ 40,189
Cash and Cash Equivalents - Beginning of Year	<u>139,831</u>	<u>99,642</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 431,480</u></b>	<b><u>\$ 139,831</u></b>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	<u>\$ 15,853</u>	<u>\$ 15,092</u>
 <b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Capital Lease Obligation Invested for the Use of Equipment	<u>\$ 16,145</u>	<u>\$ 19,818</u>
Contributions of Leasehold Improvements and Equipment	<u>\$ 92,373</u>	<u>\$ -</u>
Contribution of Property Held for Sale		
Contributed Property	\$ -	\$ 230,000
Selling Costs	-	(18,400)
Net Contribution of Property Held for Sale	<u>\$ -</u>	<u>\$ 211,600</u>

*See accompanying Notes to Financial Statements.*

**THE PENNSYLVANIA SOCIETY FOR  
THE PREVENTION OF CRUELTY TO ANIMALS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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.

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**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.

**Basis of Presentation**

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

**Classification of Net Assets**

Resources in the accompanying financial statements are classified for accounting and reporting purposes into three classes of net assets according to the existence or absence of donor-imposed restrictions as follows:

**Permanently Restricted Net Assets**

Net assets subject to donor-imposed restrictions that are to be maintained permanently by the PSPCA or used to account for funds and split-interest agreements which have been accepted with donor stipulations that principal be maintained intact in perpetuity. Investment income from these net assets is included in unrestricted net assets, unless otherwise restricted. At December 31, 2017 and 2016, the PSPCA had \$13,431,286 and \$12,407,765 in permanently restricted net assets, respectively.

**Temporarily Restricted Net Assets**

Net assets subject to donor-imposed restrictions related to a specific time period or purpose. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2017 and 2016, the PSPCA had \$4,031,168 and \$3,752,984 in temporarily restricted net assets, respectively.

**Unrestricted Net Assets**

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as net assets released from 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.

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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:

	2017	2016
Accounts Receivable	\$ 174,885	\$ 176,205
Less: Allowance for Doubtful Accounts	(145,070)	(151,940)
Net Accounts Receivable	\$ 29,815	\$ 24,265

**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.



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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 \$1,000, 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 temporarily restricted net assets to unrestricted net assets 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, 2017 and 2016.

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 temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions and Grants (Continued)**

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, 2017 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, 2017 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 1.6% during 2017 and 2016.

**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 unrestricted support and are recognized as revenue in the period received or distributed.

**Bequests**

Unless restricted by the donor as to time or purpose, bequests are reported as unrestricted support 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).

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 costs of providing the PSPCA's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses which cannot be directly identified with specific functions are allocated based on estimates of staff hours devoted to various functions or by square footage.

**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.

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).

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

**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, 2017 and 2016, respectively.

**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.

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (Continued)**

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.

**Reclassification**

Certain amounts previously reported in the financial statements for the year ended December 31, 2016 have been reclassified to conform to the current year financial statement presentation.

**Subsequent Events**

In preparing these financial statements, the PSPCA has evaluated events and transactions for potential recognition or disclosure through June 20, 2018, 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 0.62%. Unconditional promises to give at December 31, 2017 are as follows:

Receivable Less Than One Year	\$ 186,125
Receivable One to Four Years	<u>115,000</u>
Total Grants Receivable and Unconditional Promises to Give	301,125
Less:	
Discount on Net Present Value	<u>(1,659)</u>
Net Grants Receivable and Unconditional Promises to Give	<u>\$ 299,466</u>

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**NOTE 4 PROPERTY AND EQUIPMENT**

Property and Equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 788,296	\$ 788,296
Buildings, Building Improvements, and Dog Park	8,948,668	8,692,952
Leasehold Improvements	31,794	31,794
Furniture and Equipment	1,771,204	1,487,465
Transportation Equipment	688,105	622,209
Assets Held Under Capital Lease	<u>23,383</u>	<u>23,385</u>
Total	12,251,450	11,646,101
Less Accumulated Depreciation	<u>5,693,246</u>	<u>5,345,453</u>
Total Property and Equipment	<u>\$ 6,558,204</u>	<u>\$ 6,300,648</u>

Depreciation expense was \$347,793 and \$310,314 for the years ended December 31, 2017 and 2016, 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:

	<u>2017</u>	<u>2016</u>
Stocks	\$ 2,461,655	\$ 2,359,879
Mutual Funds	1,793,795	1,513,667
Bonds	1,754,444	1,791,662
Money Market	<u>235,848</u>	<u>873,720</u>
Total	<u>\$ 6,245,742</u>	<u>\$ 6,538,928</u>

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**NOTE 6 INVESTMENTS AND INVESTMENT INCOME (CONTINUED)**

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

	<u>2017</u>	<u>2016</u>
Interest and Dividends	\$ 155,721	\$ 142,733
Net Realized and Unrealized Gain on Investments	615,656	228,586
Investment Fees	<u>(52,856)</u>	<u>(48,117)</u>
Total	<u>\$ 718,521</u>	<u>\$ 323,202</u>

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

**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, 2017 are:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>12,900,121</u>	<u>-</u>	<u>-</u>	<u>12,900,121</u>
Total Investments	<u>\$ 19,145,863</u>	<u>\$ 4,647,121</u>	<u>\$ 1,598,621</u>	<u>\$ 12,900,121</u>

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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

Assets measured at fair value on a recurring basis as of December 31, 2016 are:

	Total	Level 1	Level 2	Level 3
Money Market Funds	\$ 873,720	\$ 873,720	\$ -	\$ -
Mutual Funds	1,513,667	1,513,667	-	-
Stocks	2,359,879	2,359,879	-	-
Bonds	1,791,662	200,891	1,590,771	-
Beneficial Interests in Perpetual Trusts				
Held by Third Parties	11,876,600	-	-	11,876,600
Total Investments	<u>\$ 18,415,528</u>	<u>\$ 4,948,157</u>	<u>\$ 1,590,771</u>	<u>\$ 11,876,600</u>

**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, 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	<u>\$ 12,900,121</u>

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, 2016:

	Beneficial Interests in Perpetual Trusts Held by Third Parties
Beginning Balance at January 1, 2016	\$ 11,802,302
Increase in Fair Value Included in Change in Net Assets	74,298
Ending Balance at December 31, 2016	<u>\$ 11,876,600</u>

**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.



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**NOTE 8      ENDOWMENT ACTIVITY (CONTINUED)**

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 may be permanently restricted, temporarily restricted, or unrestricted. 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 unrestricted net assets.

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

	Temporarily Restricted	Permanently Restricted	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
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	<u>350,366</u>	<u>-</u>	<u>350,366</u>
Total Investment Return	406,970	-	406,970
Distributions of Endowment Income	<u>(232,288)</u>	<u>-</u>	<u>(232,288)</u>
Endowment Assets, End of Year	<u>\$ 3,419,283</u>	<u>\$ 531,165</u>	<u>\$ 3,950,448</u>

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**NOTE 8      ENDOWMENT ACTIVITY (CONTINUED)**

A summary of the endowment activity by net asset class for the year ended December 31, 2016 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Endowment Assets, Beginning of Year	\$     3,281,887	\$       531,165	\$     3,813,052
Investment Return:			
Interest and Dividends	49,120	-	49,120
Net Realized and Unrealized Gains	124,566	-	124,566
Total Investment Return	<u>173,686</u>	<u>-</u>	<u>173,686</u>
Distributions of Endowment Income	<u>(210,972)</u>	<u>-</u>	<u>(210,972)</u>
Endowment Assets, End of Year	<u>\$     3,244,601</u>	<u>\$       531,165</u>	<u>\$     3,775,766</u>

The PSPCA also held investments that do not meet the definition of endowment assets totaling \$2,295,294 and \$2,763,162 at December 31, 2017 and 2016, 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 permanently restricted net assets. The PSPCA receives disbursements from the perpetual trusts, which are reported as trusts revenue and included in the change in unrestricted net assets 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 unrestricted net assets unless use of the disbursements is limited by donor-imposed restrictions.

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. For the year ended December 31, 2016, disbursements from trusts reported as revenue amounted to \$582,579, of which \$579,178 relates to perpetual trusts in which the PSPCA has a beneficial interest.

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**NOTE 10      LINE OF CREDIT**

On August 26, 2011, the PSPCA opened a line of credit for working capital requirements to borrow up to \$800,000. As part of this agreement, the PSPCA was limited to cash advances up to \$500,000. This agreement included provisions enabling the PSPCA to be issued a commercial letter of credit not to exceed \$300,000. The line of credit is collateralized by securities in the PSPCA's investment accounts. Borrowings under the line of credit bore interest at the Wall Street Journal prime rate of interest, plus 1.00%. In February 2013, the line of credit agreement was amended to reduce the interest rate on borrowings under the line to the Wall Street Journal prime rate of interest.

On February 1, 2014, the PSPCA amended its line of credit agreement reducing the commercial letter of credit capacity under the line from \$300,000 to \$250,000. On February 12, 2015, the PSPCA entered into an amended line of credit agreement, the terms of which extended the expiration date of the line of credit to June 1, 2015 and reduced the required amount of the PSCPA's investments collateralizing the line of credit to \$750,000. On December 1, 2015, the commercial letter of credit capacity under the line was reduced from \$250,000 to \$200,000. On September 22, 2016, the expiration date of the line of credit was extended to June 1, 2017, which on June 2, 2017 was extended for an additional three months to September 1, 2017.

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.

There were no outstanding borrowings under the line as of December 31, 2017 and 2016. The interest rate on borrowings under the line of credit was increased from 3.75% to 4.50% as of December 31, 2017. Interest expense related to the line of credit was \$14,405 and \$14,244 for the years ended December 31, 2017 and 2016, respectively.

**NOTE 11      CHARITABLE GIFT ANNUITY**

The PSPCA has received unrestricted contributions of cash in exchange for annuities payable to the donors.

The PSCPA paid \$860 and \$3,542 of annuity payments in 2017 and 2016, respectively. In 2017, and thereafter, \$1,300 is payable annually to the donors.

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**NOTE 11 CHARITABLE GIFT ANNUITY (CONTINUED)**

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 of the gifts were there 2.6% and 1.6% in 2017 and 2016, respectively.

The total liability related to the charitable gift annuities was \$20,931 and \$14,846 at December 31, 2017 and 2016, 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 unrestricted net assets.

**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:

	<u>2017</u>	<u>2016</u>
Medical Equipment	\$ 23,383	\$ 23,385
Less: Accumulated Depreciation	7,836	3,897
Total Medical Equipment	<u>\$ 15,547</u>	<u>\$ 19,488</u>

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**NOTE 13 CAPITAL LEASE OBLIGATION (CONTINUED)**

Minimum future lease payments under a capital lease as of December 31, 2017 are:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 4,353
2019	4,353
2020	4,353
2021	4,353
Total Minimum Lease Payments	17,412
Less: Amount Representing Interest	1,267
Present Value of Minimum Lease Payments	<u>\$ 16,145</u>

**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, 2017, required under the leases:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 145,688
2019	133,186
2020	76,772
2021	51,302
2022	46,768
Total	<u>\$ 453,716</u>

For the years ended December 31, 2017 and 2016 equipment and facility rental expense for all operating leases was \$117,510 and \$90,021, 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.

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**NOTE 15 CONTRIBUTIONS – IN-KIND (CONTINUED)**

The following is a summary of the in-kind contributions received by the PSPCA during the years ended December 31, 2017 and 2016. The in-kind contributions have been recorded as revenue and are also included as expenses where applicable in the statement of activities.

	2017	2016
Donated Legal Services	\$ 239,506	\$ 426,232
Donated Other Services	133,334	128,140
Donated Improvements, Equipment and Vehicles	92,373	-
Donated Goods	35,845	64,027
Total	\$ 501,058	\$ 618,399

**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, 2017 and 2016, the PSPCA had contributed, net of forfeitures to the plan, \$13,558 and \$18,961, 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, 2017 and 2016.

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**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**

Temporarily and permanently restricted net assets at December 31, 2017 and 2016 comprised the following:

	2017	2016
Temporarily Restricted Net Assets:		
Land, Buildings, Vehicles, and Equipment	\$ 198,851	\$ 271,135
Program Support in Specific Pennsylvania Counties	3,479,773	3,301,174
Humane Law Enforcement and Litigation Support	23,301	18,855
Spay and Neuter and Public Veterinary Care Support	1,906	-
Adoptions, Lifesaving, and Shelter Hospital Support	52,289	2,040
Other Program Support	38,930	7,060
Restricted for Use in Future Periods	236,118	152,720
Total	\$ 4,031,168	\$ 3,752,984
Permanently Restricted Net Assets:		
Permanent Endowments	\$ 531,165	\$ 531,165
Beneficial Interests in Perpetual Trusts Held by Third Parties (Note 9)	12,900,121	11,876,600
Total	\$ 13,431,286	\$ 12,407,765

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**NOTE 20 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.





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