

**THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF
ANNE ARUNDEL COUNTY, MARYLAND, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2019**



MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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888 Bestgate Road • Suite 310 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
Annapolis, Maryland

We have audited the accompanying financial statements of The Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc. (a non-profit Organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 17, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
July 21, 2020

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2019

ASSETS		
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 735,156	\$ 777,901
Investments	4,300,339	3,861,109
Inventory	9,082	5,747
Contributions receivable	223,122	134,345
Prepaid expenses	6,440	7,121
Total current assets	5,274,139	4,786,223
ENDOWMENT INVESTMENTS		
Cash and cash equivalents	64,297	70,930
Investments	2,155,358	1,917,118
Total endowment investments	2,219,655	1,988,048
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	602,159	577,057
Total assets	\$ 8,095,953	\$ 7,351,328
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 34,717	\$ 71,415
Accrued salaries	27,522	20,938
Accrued vacation	12,653	15,452
Total current liabilities	74,892	107,805
NET ASSETS		
Without donor restrictions	5,601,555	5,068,129
With donor restrictions	2,419,506	2,175,394
Total net assets	8,021,061	7,243,523
Total liabilities and net assets	\$ 8,095,953	\$ 7,351,328

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2019
With Summarized Financial Information for the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
REVENUES				
Contributions	\$ 1,159,755	\$ 20,110	\$ 1,179,865	\$ 1,734,418
Investment return, net	530,972	281,187	812,159	(269,851)
Shelter and spay and neuter clinic	376,507	-	376,507	332,976
Special events, net of direct expenses	313,031	-	313,031	258,035
Donated services and materials	102,489	-	102,489	92,905
Grants	35,885	-	35,885	20,335
Merchandise sales, net of direct expenses	12,006	-	12,006	21,464
Other income	339	-	339	150
	<u>2,530,984</u>	<u>301,297</u>	<u>2,832,281</u>	<u>2,190,432</u>
Net assets released from restriction	<u>57,185</u>	<u>(57,185)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>2,588,169</u>	<u>244,112</u>	<u>2,832,281</u>	<u>2,190,432</u>
EXPENSES				
Program services				
Shelter	1,278,050	-	1,278,050	1,114,072
Spay and neuter clinic	435,733	-	435,733	345,013
Donated services	102,489	-	102,489	92,905
Total program expenses	<u>1,816,272</u>	<u>-</u>	<u>1,816,272</u>	<u>1,551,990</u>
Supporting services				
Management and general	201,272	-	201,272	298,763
Fundraising	37,199	-	37,199	51,374
Total supporting services	<u>238,471</u>	<u>-</u>	<u>238,471</u>	<u>350,137</u>
Total expenses	<u>2,054,743</u>	<u>-</u>	<u>2,054,743</u>	<u>1,902,127</u>
Change in net assets	533,426	244,112	777,538	288,305
NET ASSETS AT BEGINNING OF YEAR	<u>5,068,129</u>	<u>2,175,394</u>	<u>7,243,523</u>	<u>6,955,218</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,601,555</u>	<u>\$ 2,419,506</u>	<u>\$ 8,021,061</u>	<u>\$ 7,243,523</u>

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2019

With Summarized Financial Information for the Year Ended December 31, 2018

	Program Services				Supporting Services			Total	
	Shelter	Spay and Neuter Clinic	Donated Services	Total	Management & General	Fundraising	Total	2019	2018
Salaries	\$ 664,333	\$ 187,733	\$ -	\$ 852,066	\$ 78,047	\$ 21,044	\$ 99,091	\$ 951,157	\$ 847,433
Employee benefits	54,809	114	-	54,923	3,345	-	3,345	58,268	50,198
Payroll taxes	50,031	14,017	-	64,048	6,035	1,610	7,645	71,693	64,485
Total salaries and related expenses	769,173	201,864	-	971,037	87,427	22,654	110,081	1,081,118	962,116
Medical	69	193,953	-	194,022	-	-	-	194,022	152,156
Vet hospitals	119,548	2,843	-	122,391	-	-	-	122,391	120,297
Facility expenses	80,658	13,023	-	93,681	11,378	7,597	18,975	112,656	131,776
Donated services	-	-	102,489	102,489	-	-	-	102,489	92,905
Animal food	90,319	652	-	90,971	-	-	-	90,971	55,479
Office expenses	47,999	2,232	-	50,231	10,017	6,902	16,919	67,150	51,113
Repairs & maintenance	56,149	4,294	-	60,443	1,111	-	1,111	61,554	21,293
Insurance	23,307	9,138	-	32,445	14,566	-	14,566	47,011	54,974
Miscellaneous	1,596	-	-	1,596	17,975	22,580	40,555	42,151	63,851
Depreciation	29,335	5,473	-	34,808	6,474	-	6,474	41,282	40,255
Professional fees	450	-	-	450	36,264	2,236	38,500	38,950	125,170
Casual labor	35,374	-	-	35,374	-	-	-	35,374	29,987
Merchandise sales expense	23,481	-	-	23,481	-	-	-	23,481	26,479
Information technology	4,386	1,380	-	5,766	14,478	-	14,478	20,244	24,028
Animal removal	15,106	-	-	15,106	-	-	-	15,106	15,861
Advertising	876	-	-	876	435	6,757	7,192	8,068	9,021
Travel	2,908	-	-	2,908	-	18	18	2,926	2,005
Licenses & permits	750	881	-	1,631	1,147	50	1,197	2,828	1,678
Meals & catering	47	-	-	47	-	-	-	47	490
Interest expense	-	-	-	-	-	-	-	-	231
Total expenses	1,301,531	435,733	102,489	1,839,753	201,272	68,794	270,066	2,109,819	1,981,165
Less: special events expenses included with revenue in the statement of activities	-	-	-	-	-	(31,595)	(31,595)	(31,595)	(52,559)
Less: merchandise sales expenses included with revenue in the statement of activities	(23,481)	-	-	(23,481)	-	-	-	(23,481)	(26,479)
Total expenses reported in the statement of activities	<u>\$ 1,278,050</u>	<u>\$ 435,733</u>	<u>\$ 102,489</u>	<u>\$ 1,839,753</u>	<u>\$ 201,272</u>	<u>\$ 37,199</u>	<u>\$ 238,471</u>	<u>\$ 2,054,743</u>	<u>\$ 1,902,127</u>

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 777,538	\$ 288,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,282	40,255
Unrealized/realized (gain) loss on investments	(549,543)	489,292
(Increase) decrease in operating assets:		
Inventory	(3,335)	(1,810)
Contributions receivable	(88,777)	275,755
Prepaid expenses	681	(337)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(36,698)	16,737
Accrued salaries	6,584	4,883
Accrued vacation	(2,799)	2,352
	<u>144,933</u>	<u>1,115,432</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and reinvested income	(1,020,453)	(1,178,515)
Proceeds from sale of investments	899,159	172,515
Purchase of property and equipment	(66,384)	(72,609)
	<u>(187,678)</u>	<u>(1,078,609)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	-	(1,266)
	<u>(42,745)</u>	<u>35,557</u>
Net change in cash and cash equivalents	(42,745)	35,557
Cash and cash equivalents at beginning of year	777,901	742,344
	<u>777,901</u>	<u>742,344</u>
Cash and cash equivalents at end of year	<u>\$ 735,156</u>	<u>\$ 777,901</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 231</u>

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

The Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland, Inc. (the "Society") is a not-for-profit Corporation organized under the general corporate laws of Maryland. The Society's stated purpose is to provide a broad range of services to meet the needs of animals and provide education about animals to the community.

Basis of Accounting

The Society prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. The basis of accounting involves the application of accrual accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The financial statements of the Society have been prepared in accordance with U.S. Generally Accepted Accounting Principles, which require the Society to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Society. These net assets may be used at the discretion of the Society's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Society or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Summarizes Comparative Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 1 - Summary of Significant Accounting Policies (Cont.)

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restriction. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Unexpended grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered conditional promises to give.

The Society provides animal shelter and spay and neuter clinic services. Pet adoption income and clinic income is reported at the amount that reflects the considerations to which the Society expects to be entitled to in exchange for providing the services. Revenue is recognized at the point in time when the performance obligations related to the clinic services are satisfied, or when pet adoptions are finalized.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Society considers all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with original maturities of ninety days or less to be cash equivalents, except those that are part of an endowment investment portfolio.

Use of Estimates

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

Investments

Investments with readily determinable fair values are reported at fair value in the statement of financial position. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments for the year are reported in the statement of activities.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 1 - Summary of Significant Accounting Policies (Cont.)

Property and Equipment

Property and equipment acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets such as land, buildings or equipment are recorded at their fair values and reported as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used.

Inventory

Inventory is comprised of merchandise for sale. Merchandise is valued at the lower of cost, using the first-in, first-out method, or market.

Advertising Costs

The Society expenses advertising costs when incurred. Amounts charged to expense for the years ended December 31, 2019 and 2018 were \$8,068 and \$9,021, respectively.

Income Taxes

The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Society is exempt from paying federal income tax on any income except unrelated business income. There is no provision for income taxes as the Society had no unrelated business income.

Income Tax Positions

The Society follows the guidance of *ASC 740-10, "Accounting for Uncertainty in Income Taxes"* which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Society's financial statements.

The Society analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax-exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Society does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Society's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after December 31, 2016 remain subject to examination by federal and state authorities.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 1 - Summary of Significant Accounting Policies (Cont.)

Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all non-profit organizations to present their expenses on a functional basis, separating program services from management and general expenses and fundraising expenses. Functional expenses are either charged directly to program services as incurred or allocated based on usage for items such as occupancy, depreciation and estimates of time and effort for administrative salaries.

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

Donated Goods and Services

Donated services are recognized as a contribution if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society.

Various individuals and organizations contribute goods and services to the Society's programs. Donated goods and services are recorded at fair value as of the date of donation and are included in contributions as revenue and assets or expenses in the accompanying financial statements.

A significant number of unpaid volunteers contribute time to the Society. The value of these services are not reflected in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America because the time contributed was for non-specialized services, and the recognition criteria was not met.

New Accounting Pronouncements

On January 1, 2019, the Society adopted *ASU 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made."* This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contributions versus an exchange. The adoption of *ASU 2018-08* did not have any impact on the Society's financial position, result of operations or cash flows.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 1 - Summary of Significant Accounting Policies (Cont.)

New Accounting Pronouncements (Cont.)

On January 1, 2019, the Society adopted *ASU 2014-09, "Revenue from Contracts with Customers,"* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. *ASU 2014-09* outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. The Society adopted *ASU 2014-09* and related amendments using the modified retrospective method and elected to apply the standards only to contracts that were not completed as of the adoption date. The adoption of *ASU 2014-09* did not have any impact on the Society's financial position, result of operations or cash flows.

Note 2 - Concentration of Cash Balances

At December 31, 2019 and 2018 and at various times during the years then ended, the Society maintained cash-in-bank balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2019 and 2018, amounts in excess of insured limits totaled approximately \$-0- and \$123,000, respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 3 - Availability and Liquidity

The following represents the Society's financial assets at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 735,156	\$ 777,901
Investments	4,300,339	3,861,109
Contributions receivable	<u>223,122</u>	<u>134,345</u>
Total financial assets	5,258,617	4,773,355
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>199,851</u>	<u>187,346</u>
Financial assets available to meet general expenditures over the next twelve months before Board designations	5,058,766	4,586,009
Less: Board-designated funds	<u>386,892</u>	<u>430,556</u>
Financial assets available to meet general expenditures over the next twelve months:	<u>\$4,671,874</u>	<u>\$4,155,453</u>

The Society's goal is generally to maintain financial assets to meet 12 months of operating expenses, approximately \$2 million. Program revenues are approximately \$377,000 which comprises 13% of total revenue, and as a result the Society is highly dependent upon contributions. As part of its liquidity plan, excess cash is invested in short term investments, including money market accounts and certificates of deposit as well as longer term investments in the wider markets.

The Society's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

Note 4 - Contributions Receivable

Contributions receivable represent gifts from individuals and corporations for the general support of the Society. The balance of contributions receivable at December 31, 2019 and 2018 were \$223,122 and \$134,345, respectively. All contributions are due within one year and are considered fully collectible; therefore no allowance has been established.

Note 5 - Accrued Vacation

Employees of the Society are entitled to paid vacation depending on the length of service and job classification. Vacation benefits due to employees as of December 31, 2019 and 2018 were \$12,653 and \$15,452, respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 6 - Investments - Operating Fund

Operating fund investments are carried at fair value and are comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 1,863,657	\$ 1,522,427
Certificates of deposit	1,745,798	1,834,298
Equities	<u>690,884</u>	<u>504,384</u>
	<u>\$ 4,300,339</u>	<u>\$ 3,861,109</u>

Net realized and unrealized gain/(loss) on operating fund investments for the years ended December 31, 2019 and 2018 amounted to \$328,560 and \$(310,215), respectively.

Note 7 - Investments - Endowment Fund

Endowment fund investments are carried at fair value and are comprised of the following at December 31:

	<u>2019</u>			
	<u>BB&T MacCarthy Trust</u>	<u>BB&T Leifson Trust</u>	<u>Merrill Lynch SPCA Endowment</u>	<u>Total</u>
Cash and cash equivalents	\$ 29,844	\$ 9,759	\$ 24,694	\$ 64,297
Certificates of deposit	-	-	44,898	44,898
Mutual funds	<u>1,558,911</u>	<u>379,594</u>	<u>171,955</u>	<u>2,110,460</u>
	<u>\$ 1,588,755</u>	<u>\$ 389,353</u>	<u>\$ 241,547</u>	<u>\$ 2,219,655</u>
	<u>2018</u>			
	<u>BB&T MacCarthy Trust</u>	<u>BB&T Leifson Trust</u>	<u>Merrill Lynch SPCA Endowment</u>	<u>Total</u>
Cash and cash equivalents	\$ 38,522	\$ 25,943	\$ 6,465	\$ 70,930
Certificates of deposit	-	-	59,933	59,933
Equities	604,386	173,906	-	778,292
Mutual funds	<u>799,978</u>	<u>134,747</u>	<u>144,168</u>	<u>1,078,893</u>
	<u>\$ 1,442,886</u>	<u>\$ 334,596</u>	<u>\$ 210,566</u>	<u>\$ 1,988,048</u>

Net realized and unrealized gain/(loss) on endowment investments for the year ended December 31, 2019 and 2018 amounted to \$220,983 and \$(171,768), respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 8 - Fair Value Measurement

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Society has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Society. The Society considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Society's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified as Level 1, includes cash and cash equivalents, active listed mutual funds, and equities.

Investments whose values are based on observable market-based inputs, and are, therefore classified as Level 2, include certificates of deposit.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 8 - Fair Value Measurement (Cont.)

The table below presents the balances of operating investments measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	2019			Total
	Level 1	Level 2	Level 3	
Operating fund investments:				
Certificates of deposit	\$ -	\$1,745,798	\$ -	\$1,745,798
Equities	690,884	-	-	690,884
Mutual funds	1,863,657	-	-	1,863,657
Total operating investments	<u>2,554,541</u>	<u>1,745,798</u>	<u>-</u>	<u>4,300,339</u>
Endowment fund investments:				
Cash and cash equivalents	64,297	-	-	64,297
Certificates of deposit	-	44,898	-	44,898
Mutual funds	2,110,460	-	-	2,110,460
Total endowment investments	<u>2,174,757</u>	<u>44,898</u>	<u>-</u>	<u>2,219,655</u>
Total investments	<u>\$ 4,729,298</u>	<u>\$1,790,696</u>	<u>\$ -</u>	<u>\$6,519,994</u>
	2018			
	Level 1	Level 2	Level 3	Total
Operating fund investments:				
Certificates of deposit	\$ -	\$1,834,298	\$ -	\$1,834,298
Equities	504,384	-	-	504,384
Mutual funds	1,522,427	-	-	1,522,427
Total operating investments	<u>2,026,811</u>	<u>1,834,298</u>	<u>-</u>	<u>3,861,109</u>
Endowment fund investments:				
Cash and cash equivalents	70,930	-	-	70,930
Certificates of deposit	-	59,933	-	59,933
Equities	778,292	-	-	778,292
Mutual funds	1,078,893	-	-	1,078,893
Total endowment investments	<u>1,928,115</u>	<u>59,933</u>	<u>-</u>	<u>1,988,048</u>
Total investments	<u>\$ 3,954,926</u>	<u>\$1,894,231</u>	<u>\$ -</u>	<u>\$5,849,157</u>

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 9 - Property and Equipment

The carrying values of each class of property and equipment consisted of the following at December 31:

	Estimated Useful Life	2019	2018
Land and improvements	7 - 20 yrs	\$ 57,178	\$ 57,178
Buildings and improvements	5 - 40 yrs	1,436,705	1,436,705
Equipment and fixtures	3 - 15 yrs	439,750	417,030
Vehicles	5 yrs	47,208	47,208
Construction in progress (Note 10)	-	195,111	151,447
		2,175,952	2,109,568
Less accumulated depreciation		<u>(1,573,793)</u>	<u>(1,532,511)</u>
		<u>\$ 602,159</u>	<u>\$ 577,057</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$41,282 and \$40,255, respectively.

Note 10 - Construction in Progress

The Society is planning to expand its shelter facilities. Construction in progress through December 31, 2019 and 2018 of \$195,111 and \$151,447, respectively, represents amounts spent on this expansion, not yet placed in service.

Note 11 - Special Events

The direct costs of special events have been netted with special events revenue. Special events revenue and direct costs consisted of the following at December 31:

	2019	2018
Revenue	\$ 344,626	\$ 310,594
Direct expenses	<u>(31,595)</u>	<u>(52,559)</u>
Total net revenues	<u>\$ 313,031</u>	<u>\$ 258,035</u>

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 12 - Donated Services and Materials

Donated services and materials have been recorded at their estimated value as of the date the services were rendered and goods provided. For the years ended December 31, 2019 and 2018, donated services and materials were \$102,489 and \$92,905 respectively. If these services, which are an integral part of the program, were not provided by a volunteer, they would otherwise have to be performed by paid personnel.

Note 13 - Retirement Plan

The Society maintains a simple IRA plan that covers all eligible employees and matches up to 1% of compensation. Employees may defer an amount not to exceed the maximum guidelines set by the Internal Revenue Service. For the years ended December 31, 2019 and 2018, employer contributions were \$1,365 and \$1,004, respectively.

Note 14 - Net Assets Without Donor Restrictions

Net assets without donor restrictions as of December 31:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 5,214,663	\$ 4,637,573
Board-designated	<u>386,892</u>	<u>430,556</u>
	<u>\$ 5,601,555</u>	<u>\$ 5,068,129</u>

Note 15 - Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
MacCarthy Trust	\$ 1,588,755	\$ 1,442,886
Leifson Trust	389,353	334,596
SPCA Endowment Fund	241,547	210,566
Shelter expansion	91,849	91,849
Bubba fund	79,556	87,136
Betsy fund	20,085	-
Sparky fund	6,165	6,165
Ares fund	<u>2,196</u>	<u>2,196</u>
	<u>\$ 2,419,506</u>	<u>\$ 2,175,394</u>

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 16 - Donor-Designated Endowments

The Society has been named beneficiary of two irrevocable trusts administered by a bank.

The Society is required by the terms of the MacCarthy Trust to certify annually to the Trustees that it does not oppose vivisection. The MacCarthy Trust also specifies that ninety percent of the annual endowment income be available without restriction, and the remaining ten percent of income be invested in the Society's endowment fund. If the policy of the Society is altered to one of disapproval or opposition to the surrender of condemned animals for such use, the trust shall be terminated, and the principal will be paid to the National Society for Medical Research, Incorporated.

The Leifson Trust specifies that if the Society is dissolved by voluntary or involuntary means, the bank shall pay the entire fund, including any undistributed or accrued income to Anne Arundel Medical Center.

Distributions from each trust are made to the Society on a semi-annual basis. A portion of the income is retained by the bank to cover trustee fees and other costs. Distributions received from these trusts for the years ended December 31, 2019 and 2018 totaled \$54,566 and \$50,325, respectively. Investment income is shown net of investment fees.

Endowment net assets held to perpetuity consist of the two trusts (corpus) and the cumulative ten percent distributions received from the MacCarthy Trust and transferred to the SPCA endowment fund.

The Society's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as net assets with donor restrictions held to perpetuity (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. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions held to perpetuity is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

A trustee is responsible for the investment strategy of the MacCarthy and Leifson trusts; therefore there is no investment policy that addresses these endowments and market fluctuations are reported as changes in net assets with donor restrictions.

The Society has an informal spending policy where all accumulated endowment earnings are to be used for operations which are determined annually by the Board of Directors. As of December 31, 2019 and 2018, amounts appropriated for expenditure were \$49,580 and \$45,626, respectively.

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 16 - Donor-Designated Endowments (Cont.)

Changes in donor-restricted endowment net assets are as follows at December 31:

	With Donor Restrictions	
	2019	2018
Endowment net assets, beginning of year	\$ 1,988,048	\$ 2,150,313
Investment return:		
Investment income and realized/unrealized gain (loss)	276,201	(121,340)
Required 10% distribution	4,986	4,701
Appropriation of endowment earnings for expenditure	(49,580)	(45,626)
Endowment net assets, end of year	\$ 2,219,655	\$ 1,988,048

*Endowment earnings, includes required semi-annual accumulated trust distributions

Note 17 - Unemployment Compensation Plan/Letter of Credit

The Society has elected to maintain a self-funded unemployment compensation plan, whereby it will pay qualified claims directly in lieu of submitting quarterly unemployment taxes to the state. In order to be eligible for self-funding, the state requires collateral to be held in the event the center would fail to pay claims. As of December 31, 2019 and 2018, the state required collateral of \$18,795 and \$17,329, respectively, which was in the form of a letter of credit. The letter of credit was renewed in September of 2019 in the amount of \$18,795 and currently expires in September of 2021.

Note 18 - Subsequent Events

The Society has evaluated the impact of significant events. Except as described below, there have been no significant events through July 21, 2020, the date the Society's financial statements were available to be issued, that require recognition or disclosure.

Subsequent to year-end and as of the date of the financial statements, the Society experienced significant market volatility affecting the fair value of its investments due to the financial uncertainty surrounding the global COVID-19 (coronavirus) pandemic. Due to the level of volatility experienced by the Society as of the date of the financial statements, it is at least reasonably possible that such market volatility could materially affect the amounts reported for investments in the statement of financial position. Additionally, this matter could potentially negatively impact the Society's results of operations, cash flows, and financial position. As of the date of the financial statements, the impact cannot be reasonably estimated.

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2019

Note 18 - Subsequent Events (cont.)

On April 27, 2020, the Society received loan proceeds in the amount of approximately \$192,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgiveness period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Society intends to use the proceeds for purposes consistent with the PPP. While the Society currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause the Society to be ineligible for forgiveness of the loan, in whole or in part.