

**THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF
ANNE ARUNDEL COUNTY, MARYLAND, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2020**

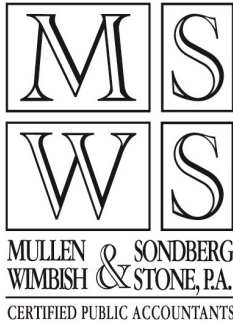


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 21, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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 13, 2021

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2020

ASSETS		
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,346,882	\$ 735,156
Investments	4,028,788	4,300,339
Inventory	11,087	9,082
Contributions receivable	176,570	223,122
Prepaid expenses	6,026	6,440
Total current assets	6,569,353	5,274,139
ENDOWMENT INVESTMENTS		
Cash and cash equivalents	70,005	64,297
Investments	2,247,685	2,155,358
Total endowment investments	2,317,690	2,219,655
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	608,023	602,159
Total assets	\$ 9,495,066	\$ 8,095,953
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 31,427	\$ 34,717
Accrued salaries	32,309	27,522
Accrued vacation	17,150	12,653
Total current liabilities	80,886	74,892
NET ASSETS		
Without donor restrictions	6,867,255	5,601,555
With donor restrictions	2,546,925	2,419,506
Total net assets	9,414,180	8,021,061
Total liabilities and net assets	\$ 9,495,066	\$ 8,095,953

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, 2020
With Summarized Financial Information for the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2020	2019
REVENUES				
Contributions	\$ 1,899,060	\$ 36,425	\$ 1,935,485	\$ 1,179,865
Investment return, net	312,603	142,000	454,603	812,159
Shelter and spay and neuter clinic	463,919	-	463,919	376,507
Special events, net of direct expenses	251,353	-	251,353	313,031
Donated services and materials	58,168	-	58,168	102,489
Grants	28,855	-	28,855	35,885
Merchandise sales, net of direct expenses	32,606	-	32,606	12,006
Other income	155	-	155	339
	<u>3,046,719</u>	<u>178,425</u>	<u>3,225,144</u>	<u>2,832,281</u>
Net assets released from restriction	51,006	(51,006)	-	-
Total revenues, gains and other support	<u>3,097,725</u>	<u>127,419</u>	<u>3,225,144</u>	<u>2,832,281</u>
EXPENSES				
Program services				
Shelter	1,229,533	-	1,229,533	1,278,050
Spay and neuter clinic	484,509	-	484,509	435,733
Donated services	58,168	-	58,168	102,489
Total program expenses	<u>1,772,210</u>	<u>-</u>	<u>1,772,210</u>	<u>1,816,272</u>
Supporting services				
Management and general	202,435	-	202,435	201,272
Fundraising	49,380	-	49,380	37,199
Total supporting services	<u>251,815</u>	<u>-</u>	<u>251,815</u>	<u>238,471</u>
Total expenses	<u>2,024,025</u>	<u>-</u>	<u>2,024,025</u>	<u>2,054,743</u>
Change in net assets before other changes	1,073,700	127,419	1,201,119	777,538
OTHER CHANGES IN NET ASSETS				
Other grant income - Paycheck Protection Program	192,000	-	192,000	-
Change in net assets	1,265,700	127,419	1,393,119	777,538
NET ASSETS AT BEGINNING OF YEAR	<u>5,601,555</u>	<u>2,419,506</u>	<u>8,021,061</u>	<u>7,243,523</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,867,255</u>	<u>\$ 2,546,925</u>	<u>\$ 9,414,180</u>	<u>\$ 8,021,061</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, 2020

With Summarized Financial Information for the Year Ended December 31, 2019

	Program Services				Supporting Services			Total	
	Shelter	Spay and Neuter Clinic	Donated Services	Total	Management & General	Fundraising	Total	2020	2019
Salaries	\$ 662,083	\$ 211,841	\$ -	\$ 873,924	\$ 81,925	\$ 21,067	\$ 102,992	\$ 976,916	\$ 951,157
Employee benefits	68,081	11,047	-	79,128	2,882	-	2,882	82,010	58,268
Payroll taxes	48,479	15,870	-	64,349	6,457	1,612	8,069	72,418	71,693
Total salaries and related expenses	778,643	238,758	-	1,017,401	91,264	22,679	113,943	1,131,344	1,081,118
Medical	-	207,084	-	207,084	-	-	-	207,084	194,022
Vet hospitals	106,668	6,342	-	113,010	-	-	-	113,010	122,391
Facility expenses	69,714	10,217	-	79,931	9,049	12,621	21,670	101,601	112,656
Animal food	96,504	681	-	97,185	-	-	-	97,185	90,971
Repairs & maintenance	57,985	5,981	-	63,966	1,993	250	2,243	66,209	61,554
Donated services	-	-	58,168	58,168	-	-	-	58,168	102,489
Professional fees	-	-	-	-	34,798	-	34,798	34,798	38,950
Depreciation	32,229	5,473	-	37,702	6,474	-	6,474	44,176	41,282
Insurance	17,586	7,917	-	25,503	14,442	-	14,442	39,945	47,011
Office expenses	23,197	1,060	-	24,257	8,251	6,708	14,959	39,216	67,150
Miscellaneous	5,688	48	-	5,736	17,770	27,362	45,132	50,868	42,151
Merchandise sales expense	26,396	-	-	26,396	-	-	-	26,396	23,481
Information technology	2,913	-	-	2,913	17,238	-	17,238	20,151	20,244
Casual labor	17,403	-	-	17,403	-	-	-	17,403	35,374
Animal removal	16,868	-	-	16,868	-	-	-	16,868	15,106
Travel	2,887	-	-	2,887	59	30	89	2,976	2,926
Licenses & permits	1,242	270	-	1,512	1,097	-	1,097	2,609	2,828
Advertising	6	678	-	684	-	476	476	1,160	8,068
Meals & catering	-	-	-	-	-	-	-	-	47
Total expenses	1,255,929	484,509	58,168	1,798,606	202,435	70,126	272,561	2,071,167	2,109,819
Less: special events expenses included with revenue in the statement of activities	-	-	-	-	-	(20,746)	(20,746)	(20,746)	(31,595)
Less: merchandise sales expenses included with revenue in the statement of activities	(26,396)	-	-	(26,396)	-	-	-	(26,396)	(23,481)
Total expenses reported in the statement of activities	<u>\$ 1,229,533</u>	<u>\$ 484,509</u>	<u>\$ 58,168</u>	<u>\$ 1,798,606</u>	<u>\$ 202,435</u>	<u>\$ 49,380</u>	<u>\$ 251,815</u>	<u>\$ 2,024,025</u>	<u>\$ 2,054,743</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, 2020

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,393,119	\$ 777,538
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,176	41,282
Unrealized/realized gain on investments	(215,605)	(549,543)
(Increase) decrease in operating assets:		
Inventory	(2,005)	(3,335)
Contributions receivable	46,552	(88,777)
Prepaid expenses	414	681
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(3,290)	(36,698)
Accrued salaries	4,787	6,584
Accrued vacation	4,497	(2,799)
Net cash provided by operating activities	1,272,645	144,933
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and reinvested income	(1,387,934)	(1,027,086)
Proceeds from sale of investments	1,782,763	899,159
Purchase of property and equipment	(50,040)	(66,384)
Net cash provided by/(used in) investing activities	344,789	(194,311)
Net change in cash and cash equivalents	1,617,434	(49,378)
Cash, cash equivalents, and restricted cash at beginning of year	799,453	848,831
Cash, cash equivalents, and restricted cash at end of year	\$ 2,416,887	\$ 799,453
Cash, cash equivalents and restricted cash consists of the following at end of year:		
Cash and cash equivalents	\$ 2,346,882	\$ 735,156
Cash and cash equivalents, restricted	70,005	64,297
	\$ 2,416,887	\$ 799,453

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, 2020

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, including shelter, adoptions, rehabilitation, vaccinations and other veterinary services, to meet the needs of animals. The Society also provides education about animals to the community in an effort to promote humane care and to end pet overpopulation.

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.

Summarized 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, 2019, 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, 2020

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. Payments for services and pet adoptions are due after the service is rendered and when the adoptions are finalized.

Fee for service revenue recognized for the years ending December 31, 2020 and 2019 is as follows:

Service Type	Revenue Recognized 12/31/2020	Revenue Recognized 12/31/2019
Veterinary Clinic Fees	\$ 264,098	\$ 206,340
Adoption Fees	127,277	121,739
Vaccination Fees	72,544	48,428
	\$ 463,919	\$ 376,507

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.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

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

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.

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, 2020 and 2019 were \$1,160 and \$8,068, 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.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

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

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, 2017 remain subject to examination by federal and state authorities.

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.

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.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

Note 2 - Concentration of Cash Balances

At December 31, 2020 and 2019 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, 2020 and 2019, amounts in excess of insured limits totaled approximately \$39,000 and \$-0-, respectively.

Note 3 - Availability and Liquidity

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

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 2,346,882	\$ 735,156
Investments	4,028,788	4,300,339
Contributions receivable	<u>176,570</u>	<u>223,122</u>
Total financial assets	6,552,240	5,258,617
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>229,235</u>	<u>199,851</u>
Financial assets available to meet general expenditures over the next twelve months before Board designations	6,323,005	5,058,766
Less: Board-designated funds	<u>359,451</u>	<u>386,892</u>
Financial assets available to meet general expenditures over the next twelve months:	<u><u>\$ 5,963,554</u></u>	<u><u>\$ 4,671,874</u></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 \$464,000 which comprises 14% 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.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

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, 2020 and 2019 were \$176,570 and \$223,122, 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, 2020 and 2019 were \$17,150 and \$12,653, respectively.

Note 6 - Investments - Operating Fund

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

	2020	2019
Mutual funds	\$ 2,418,087	\$ 1,863,657
Certificates of deposit	1,061,005	1,745,798
Equities	549,696	690,884
	\$ 4,028,788	\$ 4,300,339

Net realized and unrealized gain/(loss) on operating fund investments for the years ended December 31, 2020 and 2019 amounted to \$128,016 and \$328,560, respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

Note 7 - Investments - Endowment Fund

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

	2020			
	BB&T MacCarthy Trust	BB&T Leifson Trust	Merrill Lynch SPCA Endowment	Total
Cash and cash equivalents	\$ 30,497	\$ 22,652	\$ 16,856	\$ 70,005
Certificates of deposit	-	-	28,820	28,820
Equities	-	-	13,640	13,640
Mutual funds	1,593,128	408,238	203,859	2,205,225
	\$ 1,623,625	\$ 430,890	\$ 263,175	\$ 2,317,690
	2019			
	BB&T MacCarthy Trust	BB&T Leifson Trust	Merrill Lynch SPCA Endowment	Total
Cash and cash equivalents	\$ 29,844	\$ 9,759	\$ 24,694	\$ 64,297
Certificates of deposit	-	-	44,898	44,898
Mutual funds	1,558,911	379,594	171,955	2,110,460
	\$ 1,588,755	\$ 389,353	\$ 241,547	\$ 2,219,655

Net realized and unrealized gain/(loss) on endowment investments for the year ended December 31, 2020 and 2019 amounted to \$87,589 and \$220,983, respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

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, 2020

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:

	2020			Total
	Level 1	Level 2	Level 3	
Operating fund investments:				
Certificates of deposit	\$ -	\$1,061,005	\$ -	\$1,061,005
Equities	549,696	-	-	549,696
Mutual funds	2,418,087	-	-	2,418,087
Total operating investments	<u>2,967,783</u>	<u>1,061,005</u>	<u>-</u>	<u>4,028,788</u>
Endowment fund investments:				
Cash and cash equivalents	70,005	-	-	70,005
Certificates of deposit	-	28,820	-	28,820
Equities	13,640	-	-	13,640
Mutual funds	2,205,225	-	-	2,205,225
Total endowment investments	<u>2,288,870</u>	<u>28,820</u>	<u>-</u>	<u>2,317,690</u>
Total investments	<u>\$ 5,256,653</u>	<u>\$1,089,825</u>	<u>\$ -</u>	<u>\$6,346,478</u>
	2019			
	Level 1	Level 2	Level 3	Total
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>

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

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	2020	2019
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	462,350	439,750
Vehicles	5 yrs	47,208	47,208
Construction in progress (Note 10)	-	222,552	195,111
		<u>2,225,993</u>	<u>2,175,952</u>
Less accumulated depreciation		<u>(1,617,970)</u>	<u>(1,573,793)</u>
		<u>\$ 608,023</u>	<u>\$ 602,159</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$44,176 and \$41,282, respectively.

Note 10 - Construction in Progress

The Society is planning to expand its shelter facilities. Construction in progress through December 31, 2020 and 2019 of \$222,552 and \$195,111, 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:

	2020	2019
Revenue	\$ 272,099	\$ 344,626
Direct expenses	<u>(20,746)</u>	<u>(31,595)</u>
Total net revenues	<u>\$ 251,353</u>	<u>\$ 313,031</u>

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

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, 2020 and 2019, donated services and materials were \$58,168 and \$102,489, 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, 2020 and 2019, employer contributions were \$2,156 and \$1,365, respectively.

Note 14 - Net Assets Without Donor Restrictions

Net assets without donor restrictions consisted of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 6,507,804	\$ 5,214,663
Board-designated	<u>359,451</u>	<u>386,892</u>
	<u>\$ 6,867,255</u>	<u>\$ 5,601,555</u>

Note 15 - Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
MacCarthy Trust	\$ 1,623,625	\$ 1,588,755
Leifson Trust	430,890	389,353
SPCA Endowment Fund	263,175	241,547
Shelter expansion	91,849	91,849
Bubba fund	73,615	79,556
Betsy fund	55,410	20,085
Sparky fund	6,165	6,165
Ares fund	<u>2,196</u>	<u>2,196</u>
	<u>\$ 2,546,925</u>	<u>\$ 2,419,506</u>

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

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, 2020 and 2019 totaled \$48,350 and \$54,566, 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, 2020 and 2019, amounts appropriated for expenditure were \$43,964 and \$49,580, respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

Note 16 - Donor-Designated Endowments (Cont.)

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

	With Donor Restrictions	
	2020	2019
Endowment net assets, beginning of year	\$ 2,219,655	\$ 1,988,048
Investment return:		
Investment income and realized/unrealized gain (loss)	137,613	276,201
Required 10% distribution	4,387	4,986
Appropriation of endowment earnings for expenditure	(43,964)	(49,580)
Endowment net assets, end of year	\$ 2,317,691	\$ 2,219,655

*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, 2020 and 2019, the state required collateral of \$18,720 and \$18,795, respectively, which was in the form of a letter of credit. The letter of credit was renewed in September of 2020 in the amount of \$18,720 and currently expires in September of 2022.

Note 18 - Paycheck Protection Program Grant

In April 2020, the Society received \$192,000 under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP funding is legally structured as a forgivable loan by the SBA. In order to achieve forgiveness of the loan, the Society must spend the funding for specific purposes and also must generally maintain its full-time equivalent level of staffing over a defined time period. The Society has flexibility in determining the forgiveness period (may elect 8 weeks or 24 weeks), the specific start date for the determination of qualifying expenditures, and the specific expenses to be utilized in qualifying for forgiveness under the PPP.

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2020

Note 18 - Paycheck Protection Program Grant (Cont.)

The Society has accounted for the PPP funding as a conditional grant in the financial statements. As of December 31, 2020, management believes the Society has met the substantial conditions required for the forgiveness of the loan, and as such, the Society has recorded other grant revenue totaling \$192,000 for the year ending December 31, 2020. Due to the unusual nature of the PPP funding, this revenue has been presented separately in the financial statements under other changes in net assets. Management of the Society is of the opinion that no significant liability will result from audit adjustments, if any. In June 2021, the Society was notified that the SBA has granted 100% forgiveness of the PPP loan.

Note 19 - Subsequent Events

The Society has evaluated the impact of significant events. Except as described below, there have been no significant events through July 13, 2021, the date the Society's financial statements were available to be issued, that require recognition or disclosure.

In May 2021, the Society received a bequest totaling approximately \$549,000.

As noted in Note 18, in June 2021, the Society received noticed that the SBA has granted 100% forgiveness of the PPP loan.