

**THE HUMANE SOCIETY OF
HARRISBURG AREA, INC.**

FINANCIAL REPORT

DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Humane Society of Harrisburg Area, Inc.
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of The Humane Society of Harrisburg Area, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities 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.

Auditor's Responsibility

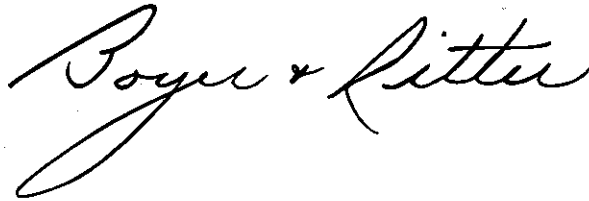
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of Harrisburg Area, Inc., as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
May 29, 2019

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	\$ 327,346	\$ 82,878
Accounts receivable (less allowance for doubtful accounts 2018 \$9,082; 2017 \$9,082)	13,974	12,500
Current portion of pledges receivable	-	1,000
Inventories	27,396	33,945
Prepaid expenses	54,270	47,595
Investments-securities	296,924	322,603
Investments-held for sale assets	99,054	-
Total current assets	818,964	500,521
Fixed Assets		
Land and improvements	78,788	76,398
Buildings and improvements	4,492,920	4,474,258
Equipment	126,634	135,874
Vehicles	72,584	66,215
Furniture and fixtures	36,068	36,068
	4,806,994	4,788,813
Less accumulated depreciation	(1,759,088)	(1,646,021)
Total fixed assets - net	3,047,906	3,142,792
Other Assets		
Other intangible assets	-	7,479
Beneficial interests in split-interest agreements and perpetual trusts	1,037,554	1,158,106
Total other assets	1,037,554	1,165,585
Total assets	\$ 4,904,424	\$ 4,808,898

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2018	2017
Current Liabilities		
Accounts payable	\$ 124,593	\$ 225,203
Demand note payable	-	130,000
Current portion of long-term debt	-	38,513
Deferred income	33,242	32,143
Accrued expenses	53,651	43,630
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Total current liabilities	211,486	469,489
Long-Term Liabilities		
Long-term debt - net of current portion	-	455,463
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Total liabilities	211,486	924,952
Net Assets		
Without Donor Restrictions		
Designated	100,000	100,000
Undesignated	3,266,870	2,468,876
With Donor Restrictions	1,326,068	1,315,070
Total net assets	4,692,938	3,883,946
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Total liabilities and net assets	\$ 4,904,424	\$ 4,808,898
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THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions, grants and bequests	\$ 2,123,654	\$ 148,900	\$ 2,272,554
Animal placements	97,605	-	97,605
Services to state and local governments	149,730	-	149,730
Services to the public	275,550	-	275,550
Merchandise sales	41,005	-	41,005
Investment income	19,254	-	19,254
Net realized and unrealized losses	(37,666)	(71,179)	(108,845)
Income from fundraising events	450,232	-	450,232
Miscellaneous revenue	23	-	23
Net assets released from restrictions	66,723	(66,723)	-
Total revenues and other support	3,186,110	10,998	3,197,108
Expenses			
Salaries and wages	964,501	-	964,501
Employee benefits	156,732	-	156,732
Payroll taxes	81,558	-	81,558
Utilities	65,199	-	65,199
Office supplies, printing and postage	15,842	-	15,842
Shelter	198,583	-	198,583
Vehicle	9,977	-	9,977
Cemetery	445	-	445
Veterinary	197,368	-	197,368
Supplies	185,722	-	185,722
Equipment repairs	33,306	-	33,306
Telephone	6,185	-	6,185
Insurance	35,155	-	35,155
Advertising	1,183	-	1,183
Professional fees	74,375	-	74,375
Special events	147,053	-	147,053
Collection fees	30,811	-	30,811
Merchandise purchases	31,897	-	31,897
Interest	11,619	-	11,619
Miscellaneous	1,065	-	1,065
Bad debts	-	-	-
Depreciation and amortization	139,540	-	139,540
Total expenses	2,388,116	-	2,388,116
Changes in net assets	797,994	10,998	808,992
Net Assets - January 1, 2018	2,568,876	1,315,070	3,883,946
Net Assets - December 31, 2018	<u>\$ 3,366,870</u>	<u>\$ 1,326,068</u>	<u>\$ 4,692,938</u>

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions, grants and bequests	\$ 917,752	\$ 50,500	\$ 968,252
Animal placements	97,484	-	97,484
Services to state and local governments	122,642	-	122,642
Services to the public	257,165	-	257,165
Merchandise sales	49,495	-	49,495
Investment income	14,265	-	14,265
Net realized and unrealized gains	26,251	144,009	170,260
Income from fundraising events	463,410	-	463,410
Miscellaneous revenue	26	-	26
Net assets released from restrictions	166,055	(166,055)	-
Total revenues and other support	2,114,545	28,454	2,142,999
Expenses			
Salaries and wages	1,022,503	-	1,022,503
Employee benefits	161,110	-	161,110
Payroll taxes	89,689	-	89,689
Utilities	53,847	-	53,847
Office supplies, printing and postage	13,207	-	13,207
Shelter	156,597	-	156,597
Vehicle	6,410	-	6,410
Cemetery	2,248	-	2,248
Veterinary	173,949	-	173,949
Supplies	162,974	-	162,974
Equipment repairs	44,211	-	44,211
Telephone	6,653	-	6,653
Insurance	35,179	-	35,179
Advertising	8,523	-	8,523
Professional fees	130,242	-	130,242
Special events	116,093	-	116,093
Collection fees	26,386	-	26,386
Merchandise purchases	43,416	-	43,416
Interest	23,009	-	23,009
Miscellaneous	1,211	-	1,211
Bad debts	2,937	-	2,937
Depreciation and amortization	129,579	-	129,579
Total expenses	2,409,973	-	2,409,973
Changes in net assets	(295,428)	28,454	(266,974)
Net Assets - January 1, 2017	2,864,304	1,286,616	4,150,920
Net Assets - December 31, 2017	<u>\$ 2,568,876</u>	<u>\$ 1,315,070</u>	<u>\$ 3,883,946</u>

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Changes in net assets	\$ 808,992	\$ (266,974)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Donated held for sale investment	(77,400)	-
Donated stock	(60,186)	-
Depreciation and amortization	139,540	129,579
Net realized and unrealized (gain) loss on investments	38,601	(26,250)
Increase in values of beneficial interests in perpetual trusts	71,178	(144,009)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,474)	(6,132)
Pledges receivable	1,000	4,366
Inventories	6,549	9,962
Prepaid expenses	(6,675)	(2,623)
(Decrease) increase in:		
Accounts payable	(100,610)	121,594
Deferred income	1,099	(5,646)
Accrued expenses	10,021	(1,464)
Net cash provided by (used in) operating activities	830,635	(187,597)
Cash Flows From Investing Activities		
Distributions from perpetual trusts	49,374	76,777
Distributions from investments	58,800	-
Purchases of investments	(11,536)	(10,131)
Costs incurred on investment held for sale	(21,654)	
Purchases of fixed assets	(37,175)	(124,333)
Net cash provided by (used in) investing activities	37,809	(57,687)
Cash Flows From Financing Activities		
Principal repayments of long-term debt	(493,976)	(39,967)
Net proceeds from (repayment of) lines-of-credit	(130,000)	130,000
Net cash provided by (used in) financing activities	(623,976)	90,033
Net increase (decrease) in cash and cash equivalents	244,468	(155,251)
Cash and Cash Equivalents:		
Beginning	82,878	238,129
Ending	\$ 327,346	\$ 82,878
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 11,619	\$ 23,009
Noncash Investing Activity		
Donated held for sale investment	\$ 77,400	\$ -
Donated stock investment	\$ 60,186	\$ -

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities: The Humane Society of Harrisburg Area, Inc. (Society), a nonprofit corporation, is incorporated under the laws of the Commonwealth of Pennsylvania. The purpose of the Society is to build a better community for pets and people through compassion, protection, education and collaboration.

Basis of Presentation: The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require reporting 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 organization. These net assets may be used at the discretion of the Organization'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 Organization, or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and Support Recognition: The Organization accounts for revenue and support in accordance with the recommendations of the Financial Accounting Standards Bureau's (FASB) Revenue Recognition Topic of the ASC the Organization reports grants, contributions, donations, and other assets as restricted revenue if they are received with donor-imposed stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the Statements of Activities as net assets released from restriction. If restricted funds are received and released in the same year, they are recorded as net assets without donor restrictions.

Cash Equivalents: All liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Accounts Receivable: The Society carries accounts receivable at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Accounts receivables are written off when deemed uncollectible.

Bequests Receivable: The Society is a beneficiary under various wills, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when clear title is established, and the proceeds are clearly measurable.

Pledges Receivable: Contributions are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Investments and Investment Income: Investments are reported at their fair values on a recurring basis. Fair value is 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. Management determines the appropriate classifications of the investments in the fair value hierarchy at the time they are acquired and evaluates the appropriateness of classifications at each balance sheet date.

Investment income or loss (including interest, dividends and realized and unrealized gains or losses on investments) is included in the Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Until any donor restrictions (time period or purpose restriction) are satisfied, investment income or loss is reported as an increase or decrease in temporarily restricted or permanently restricted net assets.

Investments are exposed to various risks, such as interest-rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risks in the near-term could materially affect values of invested assets.

Fixed Assets: Fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments greater than \$1,000 in cost are capitalized. When fixed assets are sold or retired, related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of activities.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Beneficial Interests in Split-Interest Agreements and Perpetual Trusts: Beneficial interests in split-interest agreements and perpetual trusts represent the Society's interests in irrevocable trusts for which the Society is not Trustee. These assets are neither in the possession, nor under the control of the Society. The present values of the estimated future cash flows from the trusts are recognized as a collective asset in the Statements of Financial Position.

Donated Materials and Services: The Society records the values of the donated goods or services when there is an objective basis to measure their values. Donated marketable securities and other noncash donations are recorded as contributions in the financial statements at their estimated values measured as of the dates of donation. Donated services that create or enhance nonfinancial assets or require specialized skills, provided by individuals possessing those skills, and that would typically be purchased if not provided by donation, are recorded as contributions in the financial statements.

Compensated Absences: Employees of the Society are entitled to paid vacation, paid sick days, and personal days off, depending on the employees' job classifications, lengths of service and other factors. The Society's policy is to recognize the costs of compensated absences when actually paid.

Income Tax Status: The Society is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, with the exception of Federal income tax arising from net income and investment income derived from unrelated business activities, if any. Additionally, the Internal Revenue Service has determined that the Society is not a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require the Society to annually assess its exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level include continuing qualification as a tax-exempt organization and conducting taxable, unrelated business-income activities. Currently, the Internal Revenue Code contains nominal guidance on what products or services constitute unrelated business-income activities; consequently, the Internal Revenue Service (IRS) is studying the matter and may issue additional guidance. Presently, management believes that it is more likely than not that its tax positions will be sustained upon examination, including any appeals and litigation, and therefore, management believes that the Society has no exposure to income taxes arising from uncertain tax positions.

Allocations of Functional Expenses: The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses subject to allocation between programs or supporting function are allocated on the basis of estimates and time and effort.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Adoption of New FASB Accounting Standard: In 2018, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-14. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and adjusted the presentation in these financial statements accordingly. The amendments required by this Update have been applied on a retrospective basis except for reporting expenses by natural and functional classification and the disclosures about liquidity and availability of resources as allowed by the Update. There was no material impact on the Organization's results of operations or financial condition upon adoption of the new standard.

Recent Accounting Pronouncements: In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance. More judgement and estimates may be required in the revenue recognition process when compared to existing U.S. GAAP, including identifying performance obligations in the contract, estimating variable consideration, and allocating the transaction price to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018, using either a full retrospective or retrospective with cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The amendments in this Update are provided to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, e.g. Topic 606, and (2) determining whether a contribution is conditional. The amendments in this Update are applicable for contributions received or made to annual periods beginning after June 15, 2018, in which an entity is either a public business entity or a not-for-profit that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or over-the-counter market. For all other entities, the amendments in this Update are applicable to annual periods beginning after December 15, 2018. Early adoption of the amendments is permitted. The amendments in this Update are to be applied on a modified prospective basis, although retrospective application is permitted. Under a modified prospective basis, in the first set of financial statements following the effective date, the amendments should be applied to agreements that are either not completed as of the effective date or entered-into after the effective date. Management is currently evaluating the effect that the amendments will have on the Organization's financial statements.

Subsequent Events: In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through May 29, 2019, the date the financial statements were available to be issued.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Liquidity and Availability

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. The Organization has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 15 to 30 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the Statement of Financial Position date because of contractual restrictions or internal board designations. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions

	Total
Financial assets at year end:	
Cash and cash equivalents	\$ 327,346
Accounts receivable	13,974
Investments	296,924
Total financial assets	<u>638,244</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions subject to purpose restriction	<u>226,468</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 411,776</u></u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the Statement of Cash Flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for the year ended December 31, 2018.

The Organization also has a line-of-credit available to meet short-term needs. See Note 8 for information about this arrangement.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Pledges Receivable

The following is a summary of pledges receivable as of December 31:

	2018	2017
Amounts due in:		
Less than one year	\$ -	\$ 1,000
	-	1,000
Allowance for doubtful accounts	-	-
Pledges receivable	\$ -	\$ 1,000

There were no pledges as of December 31, 2018.

Note 4. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair values and has expanded the required disclosures about fair value measurements. The framework enables the reader of financial statements to assess the inputs used to develop fair value measurements by establishing a 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 the standard are described below:

- Level 1 Inputs are unadjusted quoted prices for identical assets in active markets.
- Level 2 Inputs consist of other observable inputs that include:
- Quoted prices for similar assets or liabilities in active markets
 - Quotes prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs are significant unobservable inputs that include assumptions by management or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

The assets that are recorded at fair value on a recurring basis are investments and beneficial interests in certain trusts. The Society has no financial liabilities or non-financial items that are recognized or disclosed at fair value on a recurring basis. There have been no changes in the valuation methodologies used at December 31, 2018 and 2017. Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds and common stocks: Fair values of marketable securities were based on closing market prices for the respective securities as reported in active markets.

Beneficial interests in perpetual trusts: Fair values of beneficial interests in perpetual trusts are based on the percentage ownership of the respective trust assets, based on either the value of the trust assets as reported to the Society by the Trustees or via the valuation formulas or methodology stipulated by the underlying trust agreement which may require present value computations.

The following tables set forth by level within the fair value hierarchy the assets at fair value as of December 31, 2018 and 2017:

Assets at Fair Value as of December 31, 2018

	Level 1	Level 2	Level 3	Total
Investments				
Mutual Funds	\$ 291,048	\$ -	\$ -	\$ 291,048
Common Stock	5,876	-	-	5,876
Perpetual Trusts	-	-	1,037,554	1,037,554
Total Assets, at fair value	\$ 296,924	\$ -	\$ 1,037,554	\$ 1,334,478

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

Assets at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
Investments				
Mutual Funds	\$ 309,785	\$ -	\$ -	\$ 309,785
Common Stock	12,818	-	-	12,818
Perpetual Trusts	-	-	1,158,106	1,158,106
Total Assets, at fair value	\$ 322,603	\$ -	\$ 1,158,106	\$ 1,480,709

The following table sets forth a summary of changes in the fair values of the Society's Level 3 financial assets for the year ended December 31, 2018:

	Perpetual Trusts
Balance - January 1, 2018	\$ 1,158,106
Distributions	(49,374)
Changes in value	(71,178)
Balance - December 31, 2018	\$ 1,037,554

Note 5. Perpetual Trusts

The Society is the beneficiary of several perpetual trusts which are administered by third-party trustees. The fair values of the beneficial interests in these trusts are reported as components of permanently restricted net assets.

At the direction of a donor, a perpetual trust was established where the Society is the sole beneficiary. The net income generated by the investments held in trust is paid over to the Society in semi-annual payments. Additionally, the Society may request up to \$10,000 a year for capital improvements or repairs to the facilities. At December 31, 2018 and 2017, the balances in the perpetual trust were \$480,545 and \$540,840, respectively.

The Society is the beneficiary of numerous perpetual trusts held by financial institutions and totaling \$527,961 and \$584,864 at December 31, 2018 and 2017, respectively. The trusts were established by persons, wills, living-trust agreements, and court decrees with various restrictions and terms. Terms placed on the income distributions vary.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Perpetual Trusts (Continued)

The Foundation for Enhancing Communities (Foundation) holds a fund in trust for the Society. The Foundation holds legal title to the assets of the fund and invests and reinvests the funds. The Society is eligible to receive the income earned on this fund. Currently, the Society reinvests its earnings into the fund. At December 31, 2018 and 2017, the balance of the funds held by the Foundation were \$29,048 and \$32,402, respectively. Of these balances, \$16,338 and \$18,225 represent beneficial interests in a community foundation and the remaining balances of \$12,710 and \$14,177 represent beneficial interests in a perpetual trust.

Note 6. Concentrations of Credit Risk

Financial instruments that subject the Society to concentrations of credit risk consist primarily of cash and cash equivalents and investments. At times during the years ended December 31, 2018 and 2017, the Society's cash and cash equivalents balances may have exceeded the Federally-insured limit of \$250,000.

The Society's investments are subject to fluctuations in the fair values of those investments.

Note 7. Mortgage Payable

In July 1997, the Society entered into a loan agreement for the acquisition and construction of the East Shore Shelter. The loan agreement was amended in July 2006 and refinanced in July 2012. The refinancing consolidated the balances of the existing lines of credit and mortgage. The terms of the refinanced loan call for 6 payments of interest only to begin August 2012. Beginning January 2013, the loan required payments of principal and interest in the amount of \$14,156. Interest was charged at lenders prime rate, but never less than 4.5%.

In July 2014, the loan was refinanced. Beginning August 2014, the loan required payments of principal and interest in the amount of \$7,017. The interest rate was fixed at 4.4% for five years and will be the variable rate of .5% over the lenders prime rate but never less than 4.5%. The loan again was refinanced in September of 2015 requiring monthly principal and interest payments of \$5,248. All other terms remained the same. Final payment of accrued interest and principal was to be due January 27, 2033.

The Society paid off the entire balance of the mortgage in July 2018. The outstanding balance as of December 31, 2017 was \$493,772.

Note 8. Line-of-Credit

The Society has available a revolving line-of-credit with a bank for \$200,000. Borrowings under the line-of-credit bear interest at the bank's prime rate but no less than 4.0%. All borrowings are secured by the mortgage on the Society's building. There was no outstanding balance as of December 31, 2018. The outstanding balance on the line-of-credit was \$130,000 at December 31, 2017.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Board Designation of Net Assets

The Board of Directors has designated unrestricted net assets of \$100,000. These designated funds are to be used as a source of last resort for funding the Society's needs if the Society ceased operating.

Note 10. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

	2018	2017
Subject to expenditure for specified purpose		
Low cost veterinary clinic	\$ 155,000	\$ 130,000
Capital improvements	71,468	21,468
Grant for vehicle purchase	3,246	4,496
X-ray machine	58,800	-
Pledges restricted for capital projects	-	1,000
Not subject to appropriation of expenditure		
Beneficial interest in perpetual trusts	1,037,554	1,158,106
Total net assets with donor restrictions	<u>\$ 1,326,068</u>	<u>\$ 1,315,070</u>

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

	2018	2017
Satisfaction of purpose restrictions		
Vehicle expenses	\$ 1,249	\$ 880
Pledges restricted for capital projects	1,000	4,366
Chicken Coupe	100	-
Vehicle purchase	15,000	-
Capital improvements	-	83,532
Conference	-	500
Distributions from perpetual trusts	49,374	76,777
	<u>\$ 66,723</u>	<u>\$ 166,055</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11. Contingencies

The Society is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Society.

Note 12. Functional Expenses

Expenses by function as of December 31, 2018, are as follows:

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 793,515	\$ 128,951	\$ 42,035	\$ 964,501
Employee benefits	127,620	22,716	6,396	156,732
Payroll taxes	68,477	9,865	3,216	81,558
Utilities	59,689	5,510	-	65,199
Office supplies, printing and postage	-	15,842	-	15,842
Shelter	198,583	-	-	198,583
Vehicle	9,977	-	-	9,977
Cemetery	445	-	-	445
Veterinary	197,368	-	-	197,368
Supplies	185,722	-	-	185,722
Equipment repairs	33,306	-	-	33,306
Telephone	6,185	-	-	6,185
Insurance	25,312	9,843	-	35,155
Advertising	-	1,183	-	1,183
Professional fees	-	74,375	-	74,375
Special events	-	-	147,053	147,053
Collection fees	-	30,811	-	30,811
Merchandise purchases	31,897	-	-	31,897
Interest	11,619	-	-	11,619
Miscellaneous	1,065	-	-	1,065
Bad debts	-	-	-	-
Depreciation and amortization	131,856	7,684	-	139,540
	<u>\$ 1,882,636</u>	<u>\$ 306,780</u>	<u>\$ 198,700</u>	<u>\$ 2,388,116</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 12. Functional Expenses (Continued)

Expenses by function as of December 31, 2017, are as follows:

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 867,883	\$ 116,753	\$ 37,867	\$ 1,022,503
Employee benefits	135,751	20,092	5,267	161,110
Payroll taxes	77,860	8,932	2,897	89,689
Utilities	59,453	5,488	-	53,847
Office supplies, printing and postage	-	13,207	-	13,207
Shelter	156,597	-	-	156,597
Vehicle	6,410	-	-	6,410
Cemetery	2,248	-	-	2,248
Veterinary	173,949	-	-	173,949
Supplies	162,974	-	-	162,974
Equipment repairs	44,211	-	-	44,211
Telephone	6,653	-	-	6,653
Insurance	27,422	8,191	-	35,179
Advertising	-	8,523	-	8,523
Professional fees	-	130,242	-	130,242
Special events	-	-	116,093	116,093
Collection fees	-	26,386	-	26,386
Merchandise purchases	43,416	-	-	43,416
Interest	23,009	-	-	23,009
Miscellaneous	1,211	-	-	1,211
Bad debts	2,937	-	-	2,937
Depreciation and amortization	120,030	9,549	-	129,579
	<u>\$ 1,912,014</u>	<u>\$ 347,363</u>	<u>\$ 162,124</u>	<u>\$ 2,409,973</u>

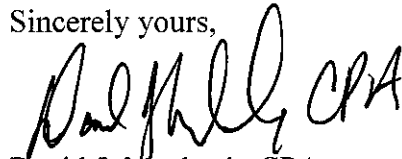
May 31, 2019

Board of Directors
The Humane Society of
Harrisburg Area, Inc.
7790 Grayson Road
Harrisburg, PA 17111

Enclosed please find the financial report and required communications letter for The Humane Society of Harrisburg Area, Inc., the year ended December 31, 2018.

If you have any questions regarding these financial statements, please do not hesitate to contact our office.

Sincerely yours,



David J. Manbeck, CPA
Principl

DJM:cyw

Enclosures

Board of Directors
The Humane Society of Harrisburg Area, Inc.
Harrisburg, Pennsylvania

This letter is intended to inform the Board of Directors of The Humane Society of Harrisburg Area, Inc., about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Directors.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

The Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 11, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our planning letter dated December 11, 2018.

Accounting Policies and Alternative Treatments

The Board of Directors has the ultimate responsibility for the appropriateness of the accounting policies used by the Society.

In 2018, the Society adopted FASB Accounting Standards Update 2016-14. The standard requires the Society to present net assets in two classes, report investment returns net of external and internal expenses, report expenses in one location, by both natural class and function, and disclose qualitative and quantitative information about the Society's liquidity and availability of resources. There was no material impact on the Society's results of operations or financial condition upon adoption of the new standard.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

We did not discuss with management any alternative treatments within accounting principles generally accepted in the United States of America for accounting policies and practices related to material items during the current audit period.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events and certain assumptions about future events. The most significant estimates affecting the financial statements are the estimates of uncollectible pledges and donated goods and services. Management has informed us that it used all relevant facts available to it at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. The Board of Directors may wish to monitor throughout the year the processes used to compute and record these accounting estimates.

We evaluated the key factors and assumptions used to develop the above estimates in determining whether or not they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users.

The most sensitive disclosures affecting the financial statements were the disclosures relating to the fair value of investments and perpetual trusts and split-interest agreements. We evaluated the key factors used to develop the above disclosures in determining that they are neutral, consistent and concise in relation to the financial statements taken as a whole.

Audit Adjustments

There was one audit adjustment made to the trial balance given to us at the start of the audit. The adjustment was discussed with management and they have chosen to post the adjustment.

Uncorrected Misstatements

There were no uncorrected misstatements accumulated by us during our audit.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the Society.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultation's management had with other accountants about accounting or auditing matters.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 29, 2019.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to The Humane Society of Harrisburg Area, Inc.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in dark ink and is positioned in the lower center of the page.

Camp Hill, Pennsylvania
May 29, 2019