

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

FINANCIAL REPORT

DECEMBER 31, 2022

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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 financial statements of The Humane Society of Harrisburg Area, Inc. (the Society), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

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
November 9, 2023

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

ASSETS	2022	2021
Current Assets		
Cash and cash equivalents	\$ 165,896	\$ 240,679
Accounts receivable	49,354	34,589
Inventories	46,304	40,626
Prepaid expenses	13,918	29,255
Investments	99,423	158,732
Investments-held for sale assets	-	123,600
Total current assets	374,895	627,481
Fixed Assets		
Land and improvements	88,439	88,439
Buildings and improvements	5,574,877	5,464,192
Equipment	157,199	176,598
Vehicles	138,575	138,575
Furniture and fixtures	73,548	73,548
	6,032,638	5,941,352
Less accumulated depreciation	(2,411,856)	(2,248,849)
Total fixed assets - net	3,620,782	3,692,503
Other Assets		
Beneficial interests in perpetual trusts	971,301	1,256,769
Endowment funds		
Investments	980,425	1,227,971
Beneficial interest in net assets of community foundation funds	135,857	168,820
Total other assets	2,087,583	2,653,560
Total assets	\$ 6,083,260	\$ 6,973,544

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2022	2021
Current Liabilities		
Accounts payable	\$ 497,381	\$ 152,638
Line of credit	140,000	-
Current portion of long-term debt	1,958	1,817
Accrued expenses	40,228	23,991
Deferred income	-	7,686
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Total current liabilities	679,567	186,132
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Long-Term Liabilities		
Long-term debt - net of current portion	4,856	6,739
	<hr/>	<hr/>
Net Assets		
Without Donor Restrictions		
Designated	235,857	268,820
Undesignated	3,166,754	4,026,613
With Donor Restrictions	1,996,226	2,485,240
Total net assets	5,398,837	6,780,673
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Total liabilities and net assets	\$ 6,083,260	\$ 6,973,544
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THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions, grants and bequests			
Cash and other financial assets	\$ 1,283,648	\$ 44,000	\$ 1,327,648
In-Kind donations	132,171	-	132,171
Animal placements	85,159	-	85,159
Services to state and local governments	93,478	-	93,478
Services to the public	501,444	-	501,444
Merchandise sales	32,688	-	32,688
Investment income, net	(30,206)	(431,985)	(462,191)
Income from fundraising events	415,596	-	415,596
Gain on disposal of asset	11,549	-	11,549
Miscellaneous revenue	710	-	710
Net assets released from restrictions	101,029	(101,029)	-
Total revenues and other support	2,627,266	(489,014)	2,138,252
Expenses			
Salaries and wages	1,412,043	-	1,412,043
Employee benefits	260,458	-	260,458
Payroll taxes	127,449	-	127,449
Utilities	55,021	-	55,021
Office supplies, printing and postage	24,607	-	24,607
Shelter	100,867	-	100,867
Vehicle	12,793	-	12,793
Cemetery	18,375	-	18,375
Veterinary	382,793	-	382,793
Supplies	171,586	-	171,586
Equipment repairs	75,316	-	75,316
Telephone	9,476	-	9,476
Insurance	38,308	-	38,308
Advertising	28,823	-	28,823
Professional fees	422,142	-	422,142
Special events	119,237	-	119,237
Collection fees	31,056	-	31,056
Merchandise purchases	22,157	-	22,157
Interest	639	-	639
Miscellaneous	6,465	-	6,465
Depreciation and amortization	200,477	-	200,477
Total expenses	3,520,088	-	3,520,088
Changes in net assets	(892,822)	(489,014)	(1,381,836)
Net Assets - January 1, 2022	4,295,433	2,485,240	6,780,673
Net Assets - December 31, 2022	<u>\$ 3,402,611</u>	<u>\$ 1,996,226</u>	<u>\$ 5,398,837</u>

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions, grants and bequests			
Cash and other financial assets	\$ 1,675,329	\$ 978,895	\$ 2,654,224
In-Kind donations	229,328	-	229,328
Animal placements	103,964	-	103,964
Services to state and local governments	119,158	-	119,158
Services to the public	544,854	-	544,854
Merchandise sales	28,468	-	28,468
Investment income, net	50,741	165,922	216,663
Income from fundraising events	321,750	-	321,750
Forgiveness of Paycheck Protection Program loan	199,277	-	199,277
Miscellaneous revenue	15,167	-	15,167
Net assets released from restrictions	160,724	(160,724)	-
Total revenues and other support	3,448,760	984,093	4,432,853
Expenses			
Salaries and wages	1,249,784	-	1,249,784
Employee benefits	219,178	-	219,178
Payroll taxes	111,383	-	111,383
Utilities	53,610	-	53,610
Office supplies, printing and postage	15,066	-	15,066
Shelter	119,727	-	119,727
Vehicle	7,367	-	7,367
Cemetery	7,914	-	7,914
Veterinary	330,606	-	330,606
Supplies	145,414	-	145,414
Equipment repairs	39,782	-	39,782
Telephone	8,207	-	8,207
Insurance	47,942	-	47,942
Advertising	8,942	-	8,942
Professional fees	334,021	-	334,021
Special events	75,215	-	75,215
Collection fees	28,760	-	28,760
Merchandise purchases	25,428	-	25,428
Interest	715	-	715
Miscellaneous	7,393	-	7,393
Bad debt	(8,235)	-	(8,235)
Depreciation and amortization	196,591	-	196,591
Total expenses	3,024,810	-	3,024,810
Changes in net assets	423,950	984,093	1,408,043
Net Assets - January 1, 2021	3,871,483	1,501,147	5,372,630
Net Assets - December 31, 2021	<u>\$ 4,295,433</u>	<u>\$ 2,485,240</u>	<u>\$ 6,780,673</u>

See Notes to Financial Statements.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Changes in net assets	\$ (1,381,836)	\$ 1,408,043
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Forgiveness of Paycheck Protection Program loan	-	(199,277)
Depreciation and amortization	200,477	196,591
Gain on sale of asset	(11,549)	-
Net realized and unrealized (gains) losses on investments	267,363	(81,597)
Donated investment	-	(37,012)
Donated property	-	(123,600)
(Increase) decrease in values of beneficial interests in perpetual trusts	234,439	(110,921)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(14,765)	(28,894)
Inventories	(5,678)	(2,451)
Prepaid expenses	15,337	1,314
(Decrease) increase in:		
Accounts payable	344,743	(124,407)
Deferred income	(7,686)	(3,154)
Accrued expenses	16,237	(6,702)
Net cash provided by (used in) operating activities	(342,918)	887,933
Cash Flows From Investing Activities		
Distributions from perpetual trusts	51,029	41,257
Distributions from investments	92,756	391,624
Purchases of investments	(20,301)	(1,308,545)
Purchases of fixed assets	(129,046)	(195,020)
Proceeds from sale of asset	135,439	-
Net cash provided by (used in) investing activities	129,877	(1,070,684)

(Continued)

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Financing Activities		
Principal repayments of long-term debt	(1,742)	(1,684)
Proceeds from line of credit	140,000	-
Net cash (used in) provided by financing activities	138,258	(1,684)
Net increase decrease in cash and cash equivalents	(74,783)	(184,435)
Cash and Cash Equivalents:		
Beginning	240,679	425,114
Ending	\$ 165,896	\$ 240,679
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 639	\$ 715
Noncash Investing Activity		
Donated property	\$ -	\$ 123,600
Donated investment	\$ -	\$ 37,012
Noncash Financing Activity		
Forgiveness of Paycheck Protection Program loan	\$ -	\$ 199,277

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 Society have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. 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 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.

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 Society 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 Society 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. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

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.

Leases: In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Society adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Society has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Society's historical accounting treatment under ASC Topic 840, Leases.

The Society elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Society does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Society has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Society determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Society obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Society also considers whether its service arrangements include the right to control the use of an asset.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

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

Leases (Continued): The Society made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Society made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Society has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to the Society, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in recording no additional ROU assets and lease liabilities related to the Society's operating leases, at January 1, 2022. The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

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.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

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

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.

Adoption of New FASB Accounting Standards Updates: In 2022, the Society adopted FASB Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities* (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets. This standard requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Also, this ASU requires disclosure of a disaggregation of the amount of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets as well as additional information around valuation and usage of the contributed nonfinancial assets. We have implemented the provisions of ASU 2020-07 in the accompanying financial statements under a retrospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2020-07.

In 2022, the Society adopted the FASB ASC Topic 842, *Leases* as amended, supersedes ASC Topic 840. This Standard requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases. We have implemented Topic 842 with no effect on the statements as of December 31, 2022. The amendments have been applied under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation.

Subsequent Events: In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through November 9, 2023, the date the financial statements were available to be issued.

Note 2. 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, 2022 and 2021, 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.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Liquidity and Availability

The Society 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 Society has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. The Society 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 Society's financial assets as of December 31, 2022 and 2021, 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.

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 165,896	\$ 240,679
Accounts receivable	49,354	34,589
Investments	99,423	158,732
Total financial assets	<u>314,673</u>	<u>434,000</u>
Less amounts not available to be used within one year:		
Net assets without donor restrictions-board designated	100,000	100,000
Net assets with donor restrictions subject to purpose restriction	44,500	500
Total amounts not available within one year	<u>144,500</u>	<u>100,500</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 170,173</u>	<u>\$ 333,500</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Society operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the Statements of Cash Flows which identifies the source and uses of the Society's cash and shows positive cash generated by operations for the years ended December 31, 2022 and 2021.

The Society also has a line-of-credit available to meet short-term needs. See Note 7 for information about this arrangement.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

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: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets• Quoted 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 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, 2022 and 2021. 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 HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

Interest in net assets of a community foundation: Fair value of the interest in net assets of a community foundation was based on the society's ownership interest in the fund as determined by the community foundation. The funds' assets were valued based on the performance of underlying investments, as well as administrative fee.

Annuity: Fair value of the annuity is based on either the value of the annuity contract as reported to the Society by the investment custodian.

Held for sale assets: Fair value of the held for sale assets is based on the estimated fair market value on the day the assets were donated and the Society took ownership of the assets.

The following tables set forth by level within the fair value hierarchy the assets at fair value as of December 31, 2022 and 2021:

Assets at Fair Value as of December 31, 2022

	Level 1	Level 2	Level 3	Total
Money Market Fund	\$ 64,949	\$ -	\$ -	\$ 64,949
Investments				
Mutual Funds	677,190	-	-	677,190
Common Stock	214	-	-	214
Fixed Income	289,393	-	-	289,393
Alts/Liquid Real Assets	48,102	-	-	48,102
Perpetual Trusts	-	-	971,301	971,301
Beneficial interest in net assets of community foundation funds	-	-	135,857	135,857
Annuity	-	-	-	-
Held for Sale Assets	-	-	-	-
Total Assets, at fair value	\$1,014,899	\$ -	\$1,107,158	\$2,187,006

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, 2021

	Level 1	Level 2	Level 3	Total
Money Market Fund	\$ 48,121	\$ -	\$ -	\$ 48,121
Investments				
Mutual Funds	886,844	-	-	886,844
Common Stock	244	-	-	244
Fixed Income	358,406	-	-	358,406
Alts/Liquid Real Assets	56,076	-	-	56,076
Perpetual Trusts	-	-	1,256,769	1,256,769
Beneficial interest in net assets of community foundation funds	-	-	168,820	168,820
Annuity	-	-	37,012	37,012
Held for Sale Assets	-	-	123,600	123,600
Total Assets, at fair value	<u>\$ 1,301,570</u>	<u>\$ -</u>	<u>\$ 1,586,201</u>	<u>\$ 2,935,892</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

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, 2022:

	Perpetual Trusts	Beneficial Interest in Net Assets of Community Foundation	Annuity	Held for Sale Assets
Balance - January 1,	\$ 1,256,769	\$ 168,820	\$ 37,012	\$ 123,600
Contributions	-	6,415	-	-
Distributions	(51,029)	(6,415)	(37,012)	(123,600)
Changes in value	(234,439)	(32,963)	-	-
Balance - December 31,	<u>\$ 971,301</u>	<u>\$ 135,857</u>	<u>\$ -</u>	<u>\$ -</u>

The following schedule summarizes investment income and its classification in the Statement of Activities for the year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 56,113	\$ 24,182	\$ 80,295
Realized gains (losses)	65,248	(2,992)	62,256
Unrealized gains (losses)	(120,772)	(208,847)	(329,619)
Change in value of trusts	-	(234,439)	(234,439)
Investment fees	(30,795)	(9,889)	(40,684)
Investment income, net	<u>\$ (30,206)</u>	<u>\$ (431,985)</u>	<u>\$ (462,191)</u>

The following schedule summarizes investment income (loss) and its classification in the Statement of Activities for the year ended December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 20,112	\$ 14,695	\$ 34,807
Realized gains (losses)	(5,943)	35,748	29,805
Unrealized gains (losses)	40,724	11,068	51,792
Change in value of trusts	-	110,921	110,921
Investment fees	(4,152)	(6,510)	(10,662)
Investment income (loss), net	<u>\$ 50,741</u>	<u>\$ 165,922</u>	<u>\$ 216,663</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Endowment Investments

Endowment investments consisted of the following at December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	\$ 135,857	\$ -	\$ 135,857
Donor-restricted Endowment Funds	-	980,425	980,425
Total funds	<u>\$ 135,857</u>	<u>\$ 980,425</u>	<u>\$ 1,116,282</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2022	\$ 168,820	\$ 1,227,971	\$ 1,396,791
Interest and dividends	2,298	24,182	26,480
Realized gain (loss) on investments	64,228	(2,992)	61,236
Unrealized gain (loss) on investments	(96,784)	(208,847)	(305,631)
Investment fees	(2,705)	(9,889)	(12,594)
Total investment return	<u>(32,963)</u>	<u>(197,546)</u>	<u>(230,509)</u>
Contributions	6,415	-	6,415
Distributions	(6,415)	(50,000)	(56,415)
Total investment transactions	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>
Endowment net assets, December 31, 2022	<u>\$ 135,857</u>	<u>\$ 980,425</u>	<u>\$ 1,116,282</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Endowments (Continued)

Endowment investments consisted of the following at December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	\$ 168,820	\$ -	\$ 168,820
Donor-restricted Endowment Funds	-	1,227,971	1,227,971
Total funds	<u>\$ 168,820</u>	<u>\$ 1,227,971</u>	<u>\$ 1,396,791</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2021	\$ 41,144	\$ -	\$ 41,144
Interest and dividends	2,690	14,695	17,385
Realized gain (loss) on investments	3,030	35,748	38,778
Unrealized gain (loss) on investments	14,946	11,068	26,014
Investment fees	(1,366)	(6,510)	(7,876)
Total investment return	<u>19,300</u>	<u>55,001</u>	<u>74,301</u>
Contributions	110,000	1,172,970	1,282,970
Distributions	(1,624)	-	(1,624)
Total investment transactions	<u>108,376</u>	<u>1,172,970</u>	<u>1,281,346</u>
Endowment net assets, December 31, 2021	<u>\$ 168,820</u>	<u>\$ 1,227,971</u>	<u>\$ 1,396,791</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. 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, 2022 and 2021, the balances in the perpetual trust were \$459,713 and \$601,252, respectively.

The Society is the beneficiary of numerous perpetual trusts held by financial institutions and totaling \$511,587 and \$655,517 at December 31, 2022 and 2021, 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.

Note 7. 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, 2022 and 2021.

Note 8. Paycheck Protection Program Loan

On April 18, 2020, the Society received loan proceeds in the amount of \$199,277 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provided for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintained its payroll levels and used the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount would have been reduced if the borrower terminated employees or reduced salaries during the covered period. Any unforgiven portion of a PPP loan would have been payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Society intended to use PPP loan proceeds for purposes consistent with the PPP and apply for forgiveness within 10 months of the end of the covered period.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8. Paycheck Protection Program Loan (Continued)

To the extent that the Society would not have been granted forgiveness, the Society would have been required to pay interest on the PPP loan at a rate of 1% per annum. If the application for forgiveness was not made within 10 months of the end of the covered period, payments of principal and interest would be required through the maturity date of April 18, 2022. The terms of the loan provide for customary events of default, including payment defaults, breach of representation of warranties, and insolvency events. The PPP loan could have been accelerated upon the occurrence of a default event.

The Society initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released. The Society recognized \$199,277 as loan forgiveness income for the year ended December 31, 2021.

Note 9. Long-Term Debt

During 2020, the Society financed a new vehicle through Ally Bank payable in monthly installments of \$200. The note matures February 2026, and bears an interest rate of 7.54%.

Future minimum principal payments of long-term debt as of December 31, 2022, are as follows:

Year	Amount
2023	\$ 1,958
2024	2,111
2025	2,275
Thereafter	470
	<u>\$ 6,814</u>

Note 10. Board Designation of Net Assets

	2022	2021
Designed as source of last resort funding if operations are ceased	\$ 100,000	\$ 100,000
Board Designated Endowment	135,857	168,820
	<u>\$ 235,857</u>	<u>\$ 268,820</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11. Net Assets with Donor Restrictions

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

	2022	2021
Subject to expenditure for specified purpose		
VRC Center	\$ 500	\$ 500
Medical equipment and supplies	44,000	-
Not subject to appropriation of expenditure		
Beneficial interest in perpetual trusts	971,301	1,256,769
Endowments	980,425	1,227,971
Total net assets with donor restrictions	<u>\$ 1,996,226</u>	<u>\$ 2,485,240</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, 2022 and 2021:

	2022	2021
Satisfaction of purpose restrictions		
Multipurpose room	\$ -	\$ 377
Zoomania	-	38,165
VRC Expansion	-	80,925
Distributions from endowment	50,000	-
Distributions from perpetual trusts	51,029	41,257
	<u>\$ 101,029</u>	<u>\$ 160,724</u>

Note 12. 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.

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 13. Functional Expenses

Expenses by function as of December 31, 2022, are as follows:

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 1,261,389	\$ 106,064	\$ 44,590	\$ 1,412,043
Employee benefits	240,606	14,468	5,384	260,458
Payroll taxes	115,924	8,114	3,411	127,449
Utilities	50,371	4,650	-	55,021
Office supplies, printing and postage	-	24,607	-	24,607
Shelter	100,867	-	-	100,867
Vehicle	12,793	-	-	12,793
Cemetery	18,375	-	-	18,375
Veterinary	382,793	-	-	382,793
Supplies	171,586	-	-	171,586
Equipment repairs	75,316	-	-	75,316
Telephone	9,476	-	-	9,476
Insurance	27,582	10,726	-	38,308
Advertising	-	28,823	-	28,823
Professional fees	-	422,142	-	422,142
Special events	-	-	119,237	119,237
Collection fees	-	31,056	-	31,056
Merchandise purchases	22,157	-	-	22,157
Interest	639	-	-	639
Miscellaneous	6,465	-	-	6,465
Bad debts	-	-	-	-
Depreciation and amortization	176,337	24,140	-	200,477
	<u>\$ 2,672,676</u>	<u>\$ 674,790</u>	<u>\$ 172,622</u>	<u>\$ 3,520,088</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 13. Functional Expenses (Continued)

Expenses by function as of December 31, 2021, are as follows:

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 1,099,738	\$ 104,149	\$ 45,897	\$ 1,249,784
Employee benefits	198,274	14,725	6,179	219,178
Payroll taxes	99,905	7,967	3,511	111,383
Utilities	49,080	4,530	-	53,610
Office supplies, printing and postage	-	15,066	-	15,066
Shelter	119,727	-	-	119,727
Vehicle	7,367	-	-	7,367
Cemetery	7,914	-	-	7,914
Veterinary	330,606	-	-	330,606
Supplies	145,414	-	-	145,414
Equipment repairs	39,782	-	-	39,782
Telephone	8,207	-	-	8,207
Insurance	35,477	12,465	-	47,942
Advertising	-	8,942	-	8,942
Professional fees	-	334,021	-	334,021
Special events	-	-	75,215	75,215
Collection fees	-	28,760	-	28,760
Merchandise purchases	25,428	-	-	25,428
Interest	715	-	-	715
Miscellaneous	7,393	-	-	7,393
Bad debts	(8,235)	-	-	(8,235)
Depreciation and amortization	174,302	22,289	-	196,591
	<u>\$ 2,341,094</u>	<u>\$ 552,914</u>	<u>\$ 130,802</u>	<u>\$ 3,024,810</u>

THE HUMANE SOCIETY OF HARRISBURG AREA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 14. In Kind Contributions

During the years ended December 31, 2022 and 2021, a substantial number of individual volunteers and businesses have donated significant amounts of time to the Society's programs and administrative functions. These services do not meet the criteria for recognition as contributed services and are not reflected on the accompanying financial statements.

The Society receives various types of in-kind contributions. The Society receives contributed materials, including contributed equipment, food, pet supplies, blankets, towels and medical supplies. The materials are valued using a publicly available website for similar items. Donated property is valued by an independent appraisal.

In-kind contributions of non-financial assets for the years ended December 31 are:

	2022	2021
Operating supplies	\$ 132,171	\$ 105,728
Property	-	123,600
	<u>\$ 132,171</u>	<u>\$ 229,328</u>

In addition to the non-financial assets above, the Organization also receives non-cash support in the form of financial assets. All financial assets donated are included in the Contribution - Cash and other financial assets line on the Statements of Activities. There were no donated financial assets for the year ended December 31, 2022. There were donated financial assets totaling \$37,012 for the year ended December 31, 2021. These assets were recorded at the fair market value of the asset on the day they were donated to the Society.

All donated services and assets were utilized by the Society's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Note 15. Subsequent Events

Subsequent to year end, the Society entered into a new mortgage agreement with a local bank totaling \$800,000. The mortgage agreement has a term of sixty months with payments beginning on June 20, 2023. Monthly payments of principal and interest total \$6,510 for fifty nine months with all remaining principal and accrued interest due with the sixtieth payment.

Subsequent to year end, the Society entered into a modification agreement relating to its line of credit. The modification agreement increases the maximum amount available on the line of credit to \$230,000.

Subsequent to year end, the Society reached a settlement agreement with the Commonwealth of Pennsylvania, Office of the Attorney General relating to differences between the two parties.