

**THE ERIE COUNTY SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**Financial Statements  
With Independent Auditor's Report**

**September 30, 2020**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
The Erie County Society for the  
Prevention of Cruelty to Animals  
West Seneca, New York

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

We have audited the accompanying financial statements of The Erie County Society for the Prevention of Cruelty to Animals (the Society) which comprise the statement of financial position as of September 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Erie County Society for the Prevention of Cruelty to Animals as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized and Comparative Information**

We have previously audited The Erie County Society for the Prevention of Cruelty to Animals' financial statements as of and for the year ended September 30, 2019, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 3, 2020. In our opinion, the summarized and comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



CERTIFIED PUBLIC ACCOUNTANTS

January 12, 2021

**THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

**STATEMENT OF FINANCIAL POSITION**

**September 30, 2020**

(With Comparative Financial Information as of September 30, 2019)

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<b>Current Assets</b>		
Cash	\$ 1,298,064	\$ 444,903
Capital campaign current receivables, net of allowance for doubtful accounts of \$10,000 in 2020 and 2019	1,535	32,097
Inventories	46,210	44,859
Prepaid expenses and other	222,103	100,366
<b>Total current assets</b>	<b>1,567,912</b>	<b>622,225</b>
Long-Term Mortgage Note Receivable, less current maturities	-	89,743
<b>Other Assets</b>		
Investments	10,939,550	9,103,227
Property and equipment, net	12,470,113	12,884,577
	<b>23,409,663</b>	<b>21,987,804</b>
<b>Total assets</b>	<b>\$ 24,977,575</b>	<b>\$ 22,699,772</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 593,064	\$ 83,808
Accounts payable	92,319	205,439
Accrued expenses and other	265,260	349,542
Deferred revenue	157,622	144,138
<b>Total current liabilities</b>	<b>1,108,265</b>	<b>782,927</b>
Long-Term Debt, less current maturities	1,071,022	848,320
<b>Total liabilities</b>	<b>2,179,287</b>	<b>1,631,247</b>
<b>Net Assets</b>		
Without donor restrictions	21,179,644	19,683,835
With donor restrictions	1,618,644	1,384,690
<b>Total net assets</b>	<b>22,798,288</b>	<b>21,068,525</b>
<b>Total liabilities and net assets</b>	<b>\$ 24,977,575</b>	<b>\$ 22,699,772</b>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2020

(With Summarized Financial Information for the Year Ended September 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Public support:				
Bequests	\$ 2,878,701	\$ -	\$ 2,878,701	\$ 2,146,860
Donations	3,162,238	177,318	3,339,556	3,234,369
Special events, net of costs of \$22,546 and \$28,765 in 2020 and 2019, respectively	183,130	-	183,130	196,792
<b>Total support</b>	<b>6,224,069</b>	<b>177,318</b>	<b>6,401,387</b>	<b>5,578,021</b>
Revenue:				
Fees for services	1,115,415	-	1,115,415	1,541,501
Boutique sales, net of costs of \$71,021 and \$127,934 in 2020 and 2019, respectively	99,535	-	99,535	121,880
Dividend and interest income	198,142	25,917	224,059	198,264
Gain (loss) on investments:				
Realized	89,635	9,850	99,485	569,344
Unrealized	275,205	36,544	311,749	(775,575)
Gain on sale of property and equipment	9,500	-	9,500	10,700
Other	10,201	-	10,201	3,768
<b>Total support and revenue</b>	<b>8,021,702</b>	<b>249,629</b>	<b>8,271,331</b>	<b>7,247,903</b>
Net assets released from restrictions:				
Satisfaction of program restrictions	15,675	(15,675)	-	-
Expenses:				
Program services:				
Animal care	5,039,595	-	5,039,595	5,243,599
Supporting services:				
Management and general	565,684	-	565,684	577,622
Fundraising	936,289	-	936,289	1,077,470
<b>Total supporting services</b>	<b>1,501,973</b>	<b>-</b>	<b>1,501,973</b>	<b>1,655,092</b>
<b>Total expenses</b>	<b>6,541,568</b>	<b>-</b>	<b>6,541,568</b>	<b>6,898,691</b>
<b>Change in net assets</b>	<b>1,495,809</b>	<b>233,954</b>	<b>1,729,763</b>	<b>349,212</b>
Net assets at beginning of year	19,683,835	1,384,690	21,068,525	20,719,313
Net assets at end of year	\$ 21,179,644	\$ 1,618,644	\$ 22,798,288	\$ 21,068,525

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2020

(With Summarized Financial Information for the Year Ended September 30, 2019)

	Program Services		Supporting Services		2020	2019
	Animal Care	Management and General	Fund-Raising	Total		
Salaries	\$ 2,609,004	\$ 315,555	\$ 212,549	\$ 528,104	\$ 3,137,108	\$ 3,326,659
Employee health and retirement benefit:	439,257	53,128	35,785	88,913	528,170	549,335
Payroll taxes	264,885	32,038	21,580	53,618	318,503	286,833
<b>Total salaries and related expenses</b>	<b>3,313,146</b>	<b>400,721</b>	<b>269,914</b>	<b>670,635</b>	<b>3,983,781</b>	<b>4,162,827</b>
Agents' costs	20,981	-	-	-	20,981	14,102
Depreciation	485,015	36,903	5,272	42,175	527,190	448,258
Development	-	-	624,076	624,076	624,076	748,545
Food and supplies	181,462	-	-	-	181,462	241,618
Humane education	12,913	-	-	-	12,913	23,324
Insurance	102,742	7,274	1,039	8,313	111,055	98,254
Interest	37,773	2,874	411	3,285	41,058	39,170
Miscellaneous	11,415	32,409	-	32,409	43,824	58,643
Occupancy	225,700	17,173	2,453	19,626	245,326	268,251
Office supplies	48,003	31,989	18	32,007	80,010	73,714
Postage	3,411	685	3,424	4,109	7,520	6,518
Professional fees	153,041	14,575	7,287	21,862	174,903	200,049
Staff education	11,098	3,836	-	3,836	14,934	10,923
Telephone	40,976	4,781	4,780	9,561	50,537	54,983
Transportation	66,598	-	-	-	66,598	68,479
Travel and dues	6,919	8,060	-	8,060	14,979	15,088
Veterinary care	296,382	-	-	-	296,382	313,003
Website maintenance	22,020	4,404	17,615	22,019	44,039	52,942
<b>Total functional expenses</b>	<b>\$ 5,039,595</b>	<b>\$ 565,684</b>	<b>\$ 936,289</b>	<b>\$ 1,501,973</b>	<b>\$ 6,541,568</b>	<b>\$ 6,898,691</b>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

Year Ended September 30, 2020

(With Comparative Financial Information for the Year Ended September 30, 2019)

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,729,763	\$ 349,212
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	527,190	448,258
Realized gain on investments	(99,485)	(569,344)
Unrealized (gain) loss on investments	(311,749)	775,575
Gain on sale of property and equipment	(9,500)	(10,700)
Capital campaign pledges and donations	-	18,119
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	89,743	14,384
Inventories	(1,351)	10,788
Prepaid expenses and other	(121,737)	(14,724)
Increase (decrease) in:		
Accounts payable	(105,599)	(111,171)
Accrued expenses and other	(84,282)	19,559
Deferred revenue	13,484	1,516
<b>Net cash provided by operating activities</b>	<b>1,626,477</b>	<b>931,472</b>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(116,747)	(141,788)
Proceeds from sale of property and equipment	6,000	10,700
Purchase of investments	(3,235,069)	(2,950,504)
Proceeds from sale of investments	1,809,980	2,389,466
<b>Net cash used in investing activities</b>	<b>(1,535,836)</b>	<b>(692,126)</b>
Cash Flows From Financing Activities:		
Payments on long-term debt	(62,577)	(121,445)
Proceeds from long-term debt	794,535	-
Proceeds from capital campaign donations	30,562	37,758
<b>Net cash provided by (used in) financing activities</b>	<b>762,520</b>	<b>(83,687)</b>
<b>Increase in cash</b>	<b>853,161</b>	<b>155,659</b>
Cash:		
Beginning	444,903	289,244
Ending	\$ 1,298,064	\$ 444,903
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest	\$ 41,058	\$ 39,170
Supplemental Schedule of Non-Cash Investing Activity:		
Property and equipment purchases included in accounts payable	\$ 7,269	\$ 14,790

# THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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

#### Nature of activities:

The Erie County Society for the Prevention of Cruelty to Animals (the Society) is a not-for-profit corporation organized to provide effective means for the prevention of cruelty to animals, to enforce all laws which are now, or may hereafter be enacted for the protection of animals, and to secure by lawful means the arrest, conviction and punishment of all persons violating such laws. The Society receives absolutely no governmental support.

A summary of the Society's significant accounting policies follows:

#### Contributions:

On October 1, 2019, the Society adopted Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) using the modified retrospective transition method. ASU 2018-08 provided clarified guidance on evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and determining whether the contribution is conditional. The Society determined that its accounting policies prior to the adoption of ASU 2018-08 were consistent with the clarification provided by ASU 2018-08. Accordingly, there was no impact to the Society's financial statements as a result of adopting ASU 2018-08.

All contributions are considered to be available for unrestricted use unless specifically restricted by a donor or by law. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Society reports gifts of cash and investments as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the related net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Gifts of land, buildings and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash for other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as support without donor restrictions in the statement of activities and changes in net assets.

A bequest from one donor amounted to \$1,729,283 for the year ended September 30, 2020.

# THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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

#### Revenue:

The Society earns revenue in reciprocal exchange transactions from fees for pet adoptions and surrenders, veterinary services, retail sales, and fees for participation in various programs operated by the Society.

Substantially all services are performed within the same business day, with revenue recognized at the point in time the service is concluded. Fees for services are generally paid by cash or credit card at the time of service, except for certain government contracts, which are paid under commercially reasonable sales terms. No significant credit is extended to customers.

On October 1, 2019, the Society adopted ASU 2014-09, *Revenue from Contracts with Customers* and all its related amendments for all reciprocal exchange transactions using the modified retrospective method, and determined that a cumulative effect adjustment to net assets was not required as its pre-existing revenue recognition policies were consistent with the new standard.

#### Donated services:

A substantial number of volunteers have donated significant amounts of their time to the Society's efforts during the year; however, these donated services are not reflected in the financial statements since these services do not require specialized skills.

#### Donor-restricted and board-designated funds:

The New York Prudent Management of Institutional Funds Act (NYPMIFA or the Act), New York's version of the Uniform Prudent Management of Institutional Funds Act, governs the management and investment of funds held by not-for-profit corporations and other institutions. The Society has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted funds which is prudent, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society retains in perpetuity (a) the original value of gifts donated to the donor-restricted fund, (b) the original value of subsequent gifts to the donor-restricted fund, and (c) accumulations to the fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted fund that is not retained in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Society in a manner consistent with the standards of prudence prescribed by NYPMIFA.

# THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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

#### Donor-restricted and board-designated funds (continued):

When making a determination to appropriate or accumulate donor-restricted funds, the Society considers the following: the duration and preservation of the fund; the purposes of the donor-restricted fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Society; where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the fund, giving due consideration to the effect that such alternatives may have on the Society; and the investment policies of the Society.

From time-to-time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or relevant law requires the Society to retain as a fund of perpetual duration. Deficiencies of this nature would be reported in net assets with donor restrictions to the extent accumulated gains are available to absorb such loss, otherwise net assets without donor restrictions. There were no deficiencies of this nature for the years ended September 30, 2020 and 2019.

The Society has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of funding to the Society while seeking to maintain the purchasing power of the funds. Investment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Directors, the investment assets are to be invested in a manner that is intended to achieve returns, net of fees, in excess of a relevant balanced benchmark as defined by the target asset allocation while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Annual spending from donor-restricted investment assets is targeted at 5% of the average value of the donor-restricted investment assets over the trailing twenty quarters as of June 30<sup>th</sup> of each year. The spending policy allows for deviations as directed by the Board of Directors to support the mission of the Society. The Society's Board of Directors will review the performance of investment assets at least annually and will appropriate board-designated funds for distribution an amount it feels is appropriate. The Society's objective is to maintain the purchasing power of the investment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

# THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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

#### Cash:

The Society considers all cash accounts except accounts that are designated for long-term investment as part of the board-designated and donor-restricted funds.

The Society maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash.

#### Receivables:

Receivables are carried at their original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

#### Inventories:

Inventories consisting of items for sale in the Society's gift shop, pet supplies, and uniforms are stated at the lower of cost (first-in, first-out) or net realizable value.

#### Investments:

The Society has investments in registered investment companies along with debt and marketable equity securities, which are stated at fair value. Registered investment companies consist of mutual funds and exchange traded funds. Debt securities consist primarily of obligations of domestic corporations. Marketable equity securities consist of common stocks that are traded or listed on national exchanges.

Investment income (including gains (losses) on investments, interest and dividends) is included in the statement of activities and changes in net assets as increases in net assets without donor restrictions unless the income is restricted by donor or law.

#### Property and equipment:

Property and equipment are carried at cost. The Society capitalizes items that are over \$1,000. Depreciation expense has been computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	40
Furniture, equipment and building improvements	3 – 35

# THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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

#### Functional allocation of expenses:

The cost of providing the varied Society program services and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Methods used for allocating expenses between program and support services:

The costs of providing the Society's programs, services and other activities have been summarized on a functional basis in the accompanying statement of activities and changes in net assets. Costs incurred by the Society are primarily charged directly to the applicable program or supporting function. In certain instances, costs are attributable to one or more program or supporting function of the Society and, accordingly, require allocation. Cost allocations are determined in accordance with methodologies reasonably based on the nature of the cost or activity, such as certain occupancy costs and are allocated based on square footage applicable to the program and supporting function.

#### Income taxes:

The Society is registered as a charitable organization in New York State and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

It is highly certain that some positions taken for income tax purposes would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements only to the extent that an uncertain tax position (if any) is attributable to the Society.

Management continually evaluates its tax positions and, as a result of this evaluation, nothing has been recorded in the financial statements as management does not consider the financial effects of uncertain tax positions and penalties, if any, to have a direct and material effect on the determination of financial statement amounts taken as a whole.

The tax returns for the years ended 2017 through 2020 remain subject to examination by the Internal Revenue Service for U.S. Federal tax purposes and also by New York State for state tax purposes.

#### 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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

#### Comparative financial information:

The statements of activities and changes in net assets and functional expenses are presented with prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended September 30, 2019, from which the summarized information was derived.

#### Subsequent events:

Management has evaluated subsequent events through January 12, 2021, which is the date the financial statements were available to be issued.

### Note 2. Liquidity Management

The Society regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investments. As of September 30, 2020, the Society has financial assets consisting of cash and receivables amounting to \$1,435,869 and has appropriated \$1,589,079 of board-designated funds (Note 8) to meet annual operating needs for the 2021 fiscal year. The Society has additional sources of liquidity available, including a revolving demand note (Note 6) and additional board-designated funds if a liquidity need arose subject to appropriation by the Board of Directors.

### Note 3. Investments

Investments at fair value at September 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Common Stocks	\$ 8,442,470	\$ 7,220,745
Bonds	1,284,071	1,138,661
Money Market Mutual Funds	680,275	337,048
Mutual Funds	532,734	406,773
	<u>\$ 10,939,550</u>	<u>\$ 9,103,227</u>

The cost basis for investments was \$8,469,638 and \$6,945,064 at September 30, 2020 and 2019, respectively.

# THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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### Note 3. Investments (Continued)

A summary of investment income activity on the above investments for the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Realized gain	\$ 99,485	\$ 569,344
Unrealized gain (loss)	<u>311,749</u>	<u>(775,575)</u>
Gain (loss) on investments	<u>\$ 411,234</u>	<u>\$ (206,231)</u>
Dividend and interest income	<u>\$ 219,351</u>	<u>\$ 192,772</u>

### Note 4. Fair Value Measurements of Financial Instruments

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority level 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 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- 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; and
- 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 to the valuation methodology are unobservable and significant to the fair value measurement.

The asset'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 ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

## 2020 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2019)

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### Note 4. Fair Value Measurements of Financial Instruments (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at September 30, 2020 and 2019.

*Common Stocks:* Valued at fair value based on quoted market prices in active markets.

*Bonds:* Consist of fixed income debt securities which are valued at approximate fair value as determined by a service provider to the obligation custodian using a pricing model.

*Mutual Funds:* Exchange traded funds and mutual funds, except for money market mutual funds, are valued at the daily closing price as reported by the fund. Exchange traded funds and mutual funds owned by the Society are open-end funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The Society deems funds owned by them to be actively traded.

*Money Market Mutual Funds:* Valued at the daily closing price as reported by the fund. The money market mutual fund held by the Society is an open-end mutual fund that is registered with the SEC that generally transacts at a stable \$1.00 NAV representing its estimated fair value. On a daily basis the fund's NAV is determined by the fund based on the amortized cost of the fund's underlying investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**Note 4. Fair Value Measurements of Financial Instruments (Continued)**

The following tables set forth by level, within the fair value hierarchy, the Society's assets at fair value at September 30, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 8,442,470	\$ -	\$ -	\$ 8,442,470
Bonds	-	1,284,071	-	1,284,071
Money Market Mutual Funds	-	680,275	-	680,275
Mutual Funds	532,734	-	-	532,734
	<u>\$ 8,975,204</u>	<u>\$ 1,964,346</u>	<u>\$ -</u>	<u>\$ 10,939,550</u>
	2019			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 7,220,745	\$ -	\$ -	\$ 7,220,745
Bonds	-	1,138,661	-	1,138,661
Money Market Mutual Funds	-	337,048	-	337,048
Mutual Funds	406,773	-	-	406,773
	<u>\$ 7,627,518</u>	<u>\$ 1,475,709</u>	<u>\$ -</u>	<u>\$ 9,103,227</u>

The Society invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances in the statement of financial position.

**Note 5. Property and Equipment**

Property and equipment at September 30, 2020 and 2019 consist of the following:

	2020	2019
Land and land improvements	\$ 537,915	\$ 537,915
Building	12,479,289	12,446,010
Furniture, equipment and building improvements	1,608,211	1,573,341
	<u>14,625,415</u>	<u>14,557,266</u>
Less accumulated depreciation	2,155,302	1,672,689
	<u>\$ 12,470,113</u>	<u>\$ 12,884,577</u>

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**Note 6. Long-Term Debt**

Long-term debt at September 30, 2020 and 2019 is as follows:

	<b>2020</b>	2019
Loan received under the U.S. Small Business Administration's Paycheck Protection Program (PPP). The Society has the opportunity to have the loan forgiven if it meets the requirements under the PPP (Note 10). If not forgiven, the loan will bear interest at 1.0% and will be repaid in monthly installments of principal and interest.	<b>\$ 794,535</b>	\$ -
Term loan with a bank payable in monthly principal and interest payments of \$10,395 through 2028. The loan is secured by certain pledged marketable securities. Interest is fixed at 4.5%.	<b>869,551</b>	932,128
	<b>1,664,086</b>	932,128
Less current maturities	<b>593,064</b>	83,808
	<b>\$ 1,071,022</b>	\$ 848,320

The Society has an available revolving demand note with a bank secured by all assets of the Society, with an aggregate maximum borrowing capacity of \$50,000. Borrowed amounts bear interest at the prime rate. Outstanding borrowings amounted to \$-0- at September 30, 2020 and 2019.

The aggregate maturities of long-term debt outstanding at September 30, 2020 are as follows:

Years ending September 30,

2021	\$ 593,064
2022	402,321
2023	96,203
2024	100,616
2025	105,371
Thereafter	366,511
	1,664,086
Less current maturities	593,064
	<b>\$ 1,071,022</b>

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**Note 7. Net Assets with Donor Restrictions**

Net assets with donor restrictions as of September 30, 2020 and 2019 are available for the following purposes or periods:

	<b>2020</b>	2019
Contributions to be received in future years to support the capital campaign, net	\$ <b>1,535</b>	\$ 32,097
Restricted for specific programs	<b>730,159</b>	465,643
Investment in perpetuity, the income from which is expendable to support any activities of the Society	<b>786,950</b>	786,950
Investments in perpetuity, the income from which is to be used to provide financial support to members of the community unable to afford veterinary costs	<b>100,000</b>	100,000
	<b>\$ 1,618,644</b>	\$ 1,384,690

Net assets were released from donor restrictions for the years ended September 30, 2020 and 2019 as follows:

	<b>2020</b>	2019
Satisfaction of program restrictions:		
Expended for property and equipment	\$ <b>4,203</b>	\$ 67,857
Incurring expenses for program activities	<b>11,472</b>	13,525
	<b>\$ 15,675</b>	\$ 81,382

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**Note 8. Board-Designated Fund**

The Society’s Board of Directors has established a board-designated fund, from net assets without donor restrictions, to support its mission to create a caring and kind community that encourages fair and humane treatment of all creatures. Changes in the board-designated fund for the years ended September 30, 2020 and 2019 are as follows:

	<b>2020</b>	2019
Board-designated fund, beginning balance	<b>\$ 7,842,289</b>	\$ 7,639,372
Contributions	<b>1,616,355</b>	934,281
Investment return:		
Interest and dividend income	<b>198,142</b>	169,574
Gain (loss) on investments	<b>364,840</b>	(185,458)
	<b>562,982</b>	(15,884)
Appropriation of board-designated fund investment assets for expenditure	<b>(495,384)</b>	(715,480)
Board-designated fund, ending balance	<b>\$ 9,526,242</b>	\$ 7,842,289

The board-designated fund at September 30, 2020 and 2019 is designated for the following:

	<b>2020</b>	2019
Board-designated to balance the operating budget	<b>\$ 1,589,079</b>	\$ 1,714,867
Board-designated for long-term use	<b>7,937,163</b>	6,127,422
Board-designated fund	<b>\$ 9,526,242</b>	\$ 7,842,289

Annually, the Board of Directors approves the designation of investment assets to supplement budgeted excess expenses over revenues. Contributions and bequests received throughout the year reduce the need to use investment assets in the board-designated fund. Therefore, actual amounts withdrawn from the board-designated fund to cover the budget short-fall will vary.

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**Note 9. Donor-Restricted Funds**

Changes in the donor-restricted funds for the years ended September 30, 2020 and 2019 are as follows:

	<b>2020</b>	2019
Donor-restricted funds, Beginning of year	<b>\$ 1,260,938</b>	\$ 1,109,048
Contributions	<b>152,370</b>	151,890
Investment return:		
Interest and dividend income	<b>25,917</b>	23,198
Gain (loss) on investments	<b>46,394</b>	(20,774)
	<b>72,311</b>	2,424
Appropriation of donor-restricted funds for expenditure	<b>(72,311)</b>	(2,424)
Donor-restricted funds, End of year	<b>\$ 1,413,308</b>	\$ 1,260,938

**Note 10. Coronavirus Contingencies and Uncertainties**

On March 13, 2020, the President of the United States of America declared a national state of emergency related to the health pandemic from the COVID-19 virus (the Coronavirus Pandemic). As a result of the Coronavirus Pandemic, certain international travel bans and other restrictions by local, federal and foreign governments have been imposed. The general impact to businesses as a result of the response to the health and safety concerns from the current outbreak could possibly cause unavailability of personnel, facility closures, regulatory changes and potential loss of customers. The Coronavirus Pandemic continued throughout 2020 and is ongoing into 2021. The resulting impact from the Coronavirus Pandemic to future overall economic activity and the Society is uncertain.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020 in response to the Coronavirus Pandemic, established the Payroll Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). Under this program, the Society was awarded a loan in the amount of \$794,535 with interest at 1.0%. The Society has the opportunity to have the loan forgiven if it meets the requirements under the PPP, including among others, maintaining or increasing employment levels over a twenty-four week period after receiving the loan. If not forgiven, the loan will bear interest at 1% and will be repaid in monthly installments of principal and interest. The Society has elected to account for the PPP loan under ASC 450 as a gain contingency and will record the forgiveness when notified by the U.S. Small Business Administration. The loan is included in long-term debt at September 30, 2020 (Note 6).

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**Note 10. Coronavirus Contingencies and Uncertainties (Continued)**

The Society submitted its application for forgiveness of the entire PPP loan to M&T Bank. The Society was notified by M&T Bank on December 10, 2020 that the SBA has approved its application for forgiveness of the entire amount of the PPP loan.

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