

**SECOND CHANCE ANIMAL SERVICES, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**

# SECOND CHANCE ANIMAL SERVICES, INC.

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# Stolberg, Ebbeling & Blanchette, LLP

*Certified Public Accountants & Business Advisors*

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
**Second Chance Animal Services, Inc.**  
East Brookfield, MA

We have audited the accompanying financial statements of **Second Chance Animal Services, Inc.** (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 **Second Chance Animal Services, Inc.** as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited **Second Chance Animal Services, Inc.**'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stollberg, Ebbeling & Blanchette, LLP*

Worcester, Massachusetts  
March 17, 2021

**SECOND CHANCE ANIMAL SERVICES, INC.**

Statement of Financial Position  
December 31, 2020  
(With Summarized Financial Information for 2019)

Assets		
	2020	2019
<b>Current assets</b>		
Cash	\$ 913,697	\$ 700,062
Program service fees receivable, net	34,077	34,484
Inventory	119,361	111,516
Prepaid expenses	9,718	16,240
	<b>1,076,853</b>	<b>862,302</b>
<b>Property and equipment</b>		
Land	274,958	274,958
Buildings	777,402	777,402
Equipment	894,044	751,063
Furniture and fixtures	6,337	6,337
Motor vehicles	425,000	456,064
Leasehold improvements	756,481	756,481
Construction in progress - Southbridge Clinic	472,577	329,400
	3,606,799	3,351,705
Less - accumulated depreciation	1,211,616	1,055,185
	<b>2,395,183</b>	<b>2,296,520</b>
<b>Other assets</b>		
Investments	775,445	639,877
Security deposits	1,865	1,865
	<b>777,310</b>	<b>641,742</b>
<b>Total assets</b>	<b>\$ 4,249,346</b>	<b>\$ 3,800,564</b>
Liabilities and Net Assets		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ -	\$ 10,884
Accounts payable	91,059	11,058
Accrued expenses	87,490	68,566
Credit card payable	73,822	43,322
	<b>252,371</b>	<b>133,830</b>
Long-term debt, net of current portion	-	<b>317,116</b>
<b>Total liabilities</b>	<b>252,371</b>	<b>450,946</b>
<b>Net assets</b>		
Without donor restrictions	3,438,313	2,617,916
With donor restrictions	558,662	731,702
	<b>3,996,975</b>	<b>3,349,618</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,249,346</b>	<b>\$ 3,800,564</b>

See independent auditors' report and notes to financial statements

**SECOND CHANCE ANIMAL SERVICES, INC.**

Statement of Activities

For the Year Ended December 31, 2020

(With Summarized Financial Information for 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
Program revenue	\$ 3,355,404	\$ -	\$ 3,355,404	\$ 3,209,765
Other revenue				
Contributions	695,797	-	695,797	706,510
Grants	66,257	449,100	515,357	913,969
Fundraising	83,517	-	83,517	152,742
Interest	2	-	2	12
Net investment return	35,566	-	35,566	27,198
Gain on sale of property and equipment	6,500	-	6,500	-
Other income	1,420	-	1,420	-
Gain from extinguishment of debt	473,200	-	473,200	-
Net assets released from restrictions	622,140	(622,140)	-	-
	<u>1,984,399</u>	<u>(173,040)</u>	<u>1,811,359</u>	<u>1,800,431</u>
Total revenues	5,339,803	(173,040)	5,166,763	5,010,196
Expenses				
Program services	3,994,722	-	3,994,722	3,770,691
General and administrative	301,124	-	301,124	248,353
Fundraising	223,560	-	223,560	176,613
	<u>4,519,406</u>	<u>-</u>	<u>4,519,406</u>	<u>4,195,657</u>
Increase (decrease) in net assets	<b>820,397</b>	<b>(173,040)</b>	<b>647,357</b>	<b>814,539</b>
Net assets, beginning of year	<u>2,617,916</u>	<u>731,702</u>	<u>3,349,618</u>	<u>2,535,079</u>
Net assets, end of year	<u><b>\$ 3,438,313</b></u>	<u><b>\$ 558,662</b></u>	<u><b>\$ 3,996,975</b></u>	<u><b>\$ 3,349,618</b></u>

See independent auditors' report and notes to financial statements

**SECOND CHANCE ANIMAL SERVICES, INC.**

Statement of Functional Expenses  
 For the Year Ended December 31, 2020  
 (With Summarized Financial Information for 2019)

	<b>Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total 2020</b>	<b>Total 2019</b>
Salaries	\$ 2,048,097	\$ 198,555	\$ 150,334	\$ 2,396,986	\$ 2,224,686
Supplies	780,474	-	23,756	804,230	794,170
Depreciation	160,204	15,531	11,759	187,494	201,792
Payroll taxes	196,439	17,870	13,530	227,839	221,667
Outreach	179,481	-	-	179,481	129,141
Occupancy	78,976	7,656	5,797	92,429	74,440
Insurance	50,412	4,553	-	54,965	63,922
Outside services	249,770	6,985	-	256,755	214,727
Employee benefits	95,110	8,590	-	103,700	72,615
Bank and credit card fees	48,019	-	3,213	51,232	44,629
Professional fees	-	33,266	-	33,266	40,725
Printing and postage	18,447	2,962	14,344	35,753	32,187
Transportation	10,800	-	-	10,800	15,234
Repairs and maintenance	36,699	-	-	36,699	17,973
Office expenses	9,690	3,705	-	13,395	5,662
Internet and website	9,777	948	718	11,443	11,308
Miscellaneous	1,485	144	109	1,738	9,434
Interest expense	11,462	-	-	11,462	7,233
Bad debt expense	4,680	-	-	4,680	-
Travel	720	-	-	720	8,156
Seminars and training	3,980	359	-	4,339	5,956
	<b>\$ 3,994,722</b>	<b>\$ 301,124</b>	<b>\$ 223,560</b>	<b>\$ 4,519,406</b>	<b>\$ 4,195,657</b>

See independent auditors' report and notes to financial statements

**SECOND CHANCE ANIMAL SERVICES, INC.**

Statements of Cash Flows  
For the Year Ended December 31, 2020  
(With Summarized Financial Information for 2019)

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities		
Increase in net assets	\$ 647,357	\$ 814,539
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	187,494	201,792
Use of paycheck protection program loans proceeds	(473,200)	
Gain on sale of property and equipment	(6,499)	-
Donated equipment included in contributions	(14,000)	-
Net investment gain	(35,566)	(27,198)
(Increase) decrease in operating assets:		
Prepaid expenses	6,522	2,621
Inventory	(7,845)	(1,452)
Program service fee receivable	407	(7,806)
Increase (decrease) in operating liabilities:		
Accounts payable	80,001	10,788
Accrued expenses	18,924	(59,229)
Credit card payable	30,500	2,714
Net cash provided by operating activities	<u><b>434,095</b></u>	<u><b>936,769</b></u>
Cash flows from investing activities		
Purchases of short-term investments	(100,000)	(207,500)
Purchases of property and equipment	(272,160)	(191,538)
Proceeds received from sale of property and equipment	6,500	-
Net cash used for investing activities	<u><b>(365,660)</b></u>	<u><b>(399,038)</b></u>
Cash flows from financing activities		
Proceeds from paycheck protection program loan	473,200	-
Principal payments on long-term debt	(328,000)	(164,238)
Net cash provided by (used for) financing activities	<u><b>145,200</b></u>	<u><b>(164,238)</b></u>
Net increase in cash	<b>213,635</b>	<b>373,493</b>
Cash - beginning of year	<u><b>700,062</b></u>	<u><b>326,569</b></u>
Cash - end of year	<u><u><b>\$ 913,697</b></u></u>	<u><u><b>\$ 700,062</b></u></u>

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**SECOND CHANCE ANIMAL SERVICES, INC.**

Statements of Cash Flows (Continued)  
For the Year Ended December 31, 2020  
(With Summarized Financial Information for 2019)

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	2020	2019
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 11,462</u>	<u>\$ 7,233</u>
Summary of non-cash transactions		
Property and equipment acquired through the assumption of long-term debt	<u>\$ -</u>	<u>\$ 328,000</u>
Donated equipment	<u>\$ 14,000</u>	<u>\$ -</u>
Paycheck protection program loan forgiveness	<u>\$ 473,200</u>	<u>\$ -</u>

See independent auditors' report and notes to financial statements

# SECOND CHANCE ANIMAL SERVICES, INC.

## Notes to Financial Statements

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### 1. Nature of Activities

Second Chance Animal Services, Inc. (the Organization), a Massachusetts not-for-profit corporation, is dedicated to providing shelter for unwanted animals until a suitable home can be found and full-service veterinary services for the public with subsidized pricing available for those who qualify. The Organization provides spay and neuter services, an adoption program, veterinary services and vaccination clinics to animals in Massachusetts. During 2020, the Organization performed 4,726 spay and neuter procedures and facilitated 1,478 adoptions. The Organization is supported primarily through service fees, donor contributions and grants.

### 2. Summary of Significant Accounting Policies

#### *Method of Accounting*

The Organization maintains its accounting records and prepares its financial statements on the accrual basis in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

#### *Adoption of New Accounting Standards*

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities.

The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. The implementation of this standard did not significantly impact the Organization's consolidated financial statements.

#### *Financial Statement Presentation*

The Organization presents information regarding its financial position and activities according to two classifications of net assets as follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations over which the Organization's Board of Directors (the Board) has discretionary control. The Board may elect to designate such resources for specific purposes. These designations may be removed at the Board's discretion.

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## SECOND CHANCE ANIMAL SERVICES, INC.

### Notes to Financial Statements

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#### 2. Summary of Significant Accounting Policies (Continued)

##### *Financial Statement Presentation (Continued)*

With Donor Restrictions – Net assets with donor restrictions include resources accumulated through donations or grants for specific operating or capital purposes, or are subject to the restriction in perpetuity that the principal be invested. Investment income may be reported as either with or without donor restrictions when earned, determined according to the gift instruments. The Organization currently has no net assets with perpetual restrictions.

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2019 from which the summarized information was derived.

##### *Cash*

For the purposes of the statement of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash. Cash and short-term investments held in the investment account are reported as investments instead of cash because the Organization holds those funds as part of its investments.

##### *Program Service Fees Receivable*

Program service fees receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on program service fees receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of customers to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The allowance for doubtful accounts was \$6,000 at December 31, 2020 and 2019.

##### *Inventory*

Inventory, which consists primarily of dietary foods and medicine, are valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

##### *Property and Equipment and Depreciation*

Property and equipment are stated at cost, if purchased or at fair value at the date of gift, if donated, less accumulated depreciation. Additions with a cost or fair value of less than \$1,000 are expensed.

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## SECOND CHANCE ANIMAL SERVICES, INC.

### Notes to Financial Statements

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#### 2. Summary of Significant Accounting Policies (Continued)

##### *Property and Equipment and Depreciation (Continued)*

Donated property and equipment are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to thirty-nine years.

##### *Valuation of Long-Lived Assets*

The Organization's long-lived assets are reviewed for impairment in accordance with U.S. GAAP whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs associated with the sale. The Organization has determined that no long-lived assets are impaired at December 31, 2020.

##### *Investments*

The Organization carries investments in marketable securities with readily determinable fair value and all investments in certificate of deposits at their fair values or similar instruments based on quoted prices in active markets (all Level 1 measurements, see Note 8) in the statements of financial position. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near-term would materially affect the amounts reported in the financial statements.

Gains or losses on investments are reported in the statements of activities as increases or decreases in net assets without donor restrictions or net assets with donor restrictions if their use is restricted by explicit donor stipulations or by law.

## SECOND CHANCE ANIMAL SERVICES, INC.

### Notes to Financial Statements

#### 2. Summary of Significant Accounting Policies (Continued)

##### *Revenue Recognition*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. We adopted the standard on January 1, 2019. Our program revenue is generated substantially from providing spay and neuter services, adoption programs, veterinary services and vaccinations to animals. These services contain a single delivery element and revenue is recognized at a single point in time when the services are complete, payment is received and/or ownership, risks and rewards are transferred. There are occasions when payment is not provided at the time of service and credit is provided. The program fee receivable at December 31, 2020, 2019 and 2018 was \$44,709, \$40,484 and \$32,678, respectively.

##### *Contributions and Grants*

Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions and grants are reported as increases in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, the net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

##### *Contributed Services and Materials*

Amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise.

During 2020 and 2019, donated services consisted of:

	2020	2019
Legal services	\$ 8,247	\$ 7,068
Website design	-	4,000
Advertising services	<u>146,310</u>	<u>98,938</u>
	<u>\$ 154,557</u>	<u>\$ 110,006</u>

Many individuals volunteer their time and perform a variety of tasks that assist the Organization and its facilities. Management estimates that it received more than 25,000 volunteer hours from 280 volunteers in 2020. The volunteer hours have not been recorded in the statement of activity.

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## SECOND CHANCE ANIMAL SERVICES, INC.

### Notes to Financial Statements

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#### 2. Summary of Significant Accounting Policies (Continued)

##### *Income Taxes*

The Organization is organized as a Massachusetts nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(c)(3). Thus it qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi). The organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that the organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

##### *Functional Expense Allocations*

The financial statements report certain categories of expenses that are attributable to program or supporting functions. These expenses require allocation on a reasonable basis that is consistently applied. Compensation and benefits are allocated on the basis of estimates of time and effort. Other costs are charged to the specific functions or distributed based on personnel allocations.

##### *Advertising*

Advertising and awareness outreach costs are expensed as incurred and totaled \$179,481 and \$129,141 in 2020 and 2019, respectively.

##### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### *Reclassifications*

Certain accounts previously reported in the 2019 financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on 2019 net income as previously reported.

##### *Subsequent Events*

The Organization has evaluated subsequent events through March 17, 2021, the date the financial statements were available to be issued.

**SECOND CHANCE ANIMAL SERVICES, INC.**

Notes to Financial Statements

**3. Liquidity and Availability**

Financial assets available for general expenditure that is without donor or other restrictions limiting their use, within one year of the balance sheet date are comprised of the following:

	2020	2019
Cash	\$ 913,697	\$ 700,062
Program services fees receivable, net	34,077	34,484
Investments	775,445	639,877
Less with donor restrictions	<u>(558,662)</u>	<u>(731,702)</u>
	<u>\$ 1,164,557</u>	<u>\$ 642,721</u>

The Organization monitors its cash position on a regular basis to ensure that adequate funds are available for general expenditures. As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Additionally, as discussed in more detail in Note 5, the Organization maintains a \$50,000 line of credit, of which \$50,000 remained available on December 31, 2020.

**4. Investments**

Investments consist of the following at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 4,618	\$ 4,618	\$ 203,258	\$ 203,258
Stocks	-	-	7,757	8,174
Exchange-traded & closed end funds	98,929	100,115	-	-
Bonds	-	-	309,670	307,623
Mutual funds	<u>663,519</u>	<u>670,712</u>	<u>104,363</u>	<u>120,822</u>
	<u>\$ 767,066</u>	<u>\$ 775,445</u>	<u>\$ 625,048</u>	<u>\$ 639,877</u>

The following schedule summarizes investment returns and their classification in the statements of activities for the years ended December 31, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2020			
Interest income	\$ 17,397	\$ -	\$ 17,397
Net realized and unrealized gains	18,523	-	18,523
Investment management fees	<u>(354)</u>	<u>-</u>	<u>(354)</u>
Total investment return	<u>\$ 35,566</u>	<u>\$ -</u>	<u>\$ 35,566</u>

Continued --

**SECOND CHANCE ANIMAL SERVICES, INC.**

Notes to Financial Statements

**4. Investments (Continued)**

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2019			
Interest income	\$ 12,774	\$ -	\$ 12,774
Net realized and unrealized gains	14,603	-	14,603
Investment management fees	(179)	-	(179)
Total investment loss	<u>\$ 27,198</u>	<u>\$ -</u>	<u>\$ 27,198</u>

**5. Line of Credit**

The Organization has a \$50,000 demand line of credit secured by the assets of the Organization. Interest is payable monthly at the bank's prime rate plus 1.5% (4.75% at December 31, 2020).

**6. Long-Term Debt**

Long-term debt consists of the following at December 31:

	2020	2019
Note payable, secured by a first mortgage lien on a building, payable in monthly installments of \$2,024, consisting of principal, plus interest at 4.15% through December 2039. This note payable was repaid during 2020.	<u>\$ -</u>	<u>\$ 328,000</u>
	\$ -	\$ 328,000
Less - current portion	<u>-</u>	<u>10,884</u>
Long-term portion	<u>\$ -</u>	<u>\$ 317,116</u>



## SECOND CHANCE ANIMAL SERVICES, INC.

### Notes to Financial Statements

#### 7. Net Assets

At December 31, 2020 and 2019, net assets without donor restrictions consist of undesignated amounts that are generally available for use by the Organization.

Net assets with donor restriction are restricted for the following purposes or periods at December 31, 2020 and 2019:

	2020	2019
Southbridge construction and equipment	\$ 386,808	\$ 524,520
Adoption	74,037	99,149
Project Good Dog	43,329	71,391
Transportation program	25,559	-
Worcester renovation and equipment	19,315	-
Rebuild Grant - Supplies and staff	3,949	-
COVID costs and supplies	2,979	-
Veterinary services	2,100	20,640
Veterinary equipment	586	6,636
Spay/neuter program	-	9,366
	<u>\$ 558,662</u>	<u>\$ 731,702</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. The net assets released from restrictions at December 31, 2020 are as follows:

Purpose restrictions accomplished	
Southbridge construction	\$ 282,512
Southbridge equipment	126,200
Adoption	105,112
Project Good Dog	28,062
Transportation program	24,441
Worcester renovation and equipment	1,185
Rebuild Grant - Supplies and staff	4,051
COVID costs and supplies	7,021
Veterinary services	20,640
Veterinary equipment	13,550
Spay/neuter program	9,366
	<u>\$ 622,140</u>

**SECOND CHANCE ANIMAL SERVICES, INC.**

Notes to Financial Statements

**8. Fair Value**

The Organization measures its financial instruments at fair market value according to U.S. GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, i.e., exit price, in an orderly transaction between market participants and also establishes a hierarchy for determining fair value, which emphasizes the use of observable market data whenever available.

The three broad levels defined by the hierarchy are as follows, with the highest priority given to Level 1, as these are most reliable, and the lowest priority given to Level 3:

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset 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 following tables present by level, within the fair value hierarchy, the Organization's investment assets at fair value, as of December 31, 2020 and 2019:

December 31, 2020	Total	Level 1	Level 2	Level 3
Investments				
Cash	\$ 4,618	\$ 4,618	\$ -	\$ -
Exchange-traded & closed end funds	100,115	100,115	-	-
Mutual funds	670,712	670,712	-	-
Total investments	<u>\$ 775,445</u>	<u>\$ 775,445</u>	<u>\$ -</u>	<u>\$ -</u>

Continued --

**SECOND CHANCE ANIMAL SERVICES, INC.**

Notes to Financial Statements

**8. Fair Value (Continued)**

December 31, 2020	Total	Level 1	Level 2	Level 3
Investments				
Cash	\$ 4,618	\$ 4,618	\$ -	\$ -
Exchange-traded & closed end funds	100,115	100,115	-	-
Mutual funds	670,712	670,712	-	-
Total investments	<u>\$ 775,445</u>	<u>\$ 775,445</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2019				
Investments				
Cash	\$ 203,258	\$ 203,258	\$ -	\$ -
Bonds	307,623	307,623	-	-
Stocks	8,174	8,174	-	-
Mutual funds	120,822	120,822	-	-
Total investments	<u>\$ 639,877</u>	<u>\$ 639,877</u>	<u>\$ -</u>	<u>\$ -</u>

The stocks and exchange-traded & closed-end funds are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds include publicly traded funds valued at quoted market prices. There were no changes in the methodologies used to measure assets at fair value during 2020.

**9. Gain from extinguishment of debt**

The Organization received \$473,200 in loan proceeds pursuant to the Paycheck Protection Program ("PPP"), under the Coronavirus Aid Relief and Economic Security (CARES) Act. As part of the PPP, the Organization may qualify for up to 100% forgiveness if the funds are used for at least 60% payroll costs and the remainder for other qualified expenses. During 2020, the Organization used the funds for the aforementioned expenses, so it applied for and was granted full forgiveness. The Organization has elected to treat the forgivable loan as debt under FASB ASC 470, accordingly the forgiveness is recognized as a gain on extinguishment of debt.

**10. Retirement Plan**

The Organization has a 403(b) defined contribution pension plan covering substantially all employees. Under the plan, employees can contribute a percentage of their salary, or a fixed dollar amount to the plan. The Organization may agree to make "nonelective" contributions to their employees' 403(b) plans. The Organization did not make a contribution to the pension plan in 2020 or 2019.

## SECOND CHANCE ANIMAL SERVICES, INC.

### Notes to Financial Statements

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#### **11. Concentrations**

The Organization has a concentration of credit represented by cash balances in financial institutions which occasionally exceed federal deposit insurance limits. The financial stability of this institution is continually reviewed by senior management.

#### **12. Commitments and Contingencies**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization remained open during the pandemic but is required to follow state mandated COVID-19 protocols for cleaning and social distancing. The mandates require that employees remain six feet apart at all times. Following this requirement, the Organization's facility could not operate at full capacity due to available space. The Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the financial position, results of operations, and cash flows in fiscal 2021.

See independent auditors' report