# CHARLOTTESVILLE – ALBEMARLE
# SOCIETY FOR THE PREVENTION OF CRUELTY
# TO ANIMALS, INC.

## FINANCIAL REPORT

## December 31, 2018

**CONTENTS**

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS**

To the Board of Directors
Charlottesville – Albemarle Society for the
Prevention of Cruelty to Animals, Inc.
Charlottesville, Virginia

We have audited the accompanying financial statements of the Charlottesville – Albemarle Society for the Prevention of Cruelty to Animals, Inc. (the "SPCA"), which comprise the statements of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year partially summarized comparative information has been derived from the SPCA's 2017 financial statements, and in our report dated September 17, 2018 we expressed an unmodified opinion on those financial statements.

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

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

**Auditor's Responsibility**

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

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

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


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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charlottesville – Albemarle Society for the Prevention of Cruelty to Animals, Inc. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 17, 2019

**CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**

**STATEMENTS OF FINANCIAL POSITION**
**December 31, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 630,856 | $ 422,884 |
| Investments (Note 2) | 5,157,876 | 7,810,161 |
| Accounts receivable | 16,487 | 64,822 |
| Other current assets | 37,238 | 40,280 |
| Total current assets | 5,842,457 | 8,338,147 |
| PROPERTY AND EQUIPMENT, net (Note 5) | 7,643,960 | 5,358,156 |
| OTHER ASSETS | | |
| Beneficial interest in Bleecker Trust (Notes 2 and 10) | 710,666 | 809,651 |
| USDA loan reserve (Note 7) | 196,471 | 196,471 |
| Restricted cash held for Pace endowment (Note 10) | 26,000 | 26,000 |
| Total other assets | 933,137 | 1,032,122 |
| Total assets | $ 14,419,554 | $ 14,728,425 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 288,768 | $ 33,234 |
| Accrued expenses (Note 6) | 85,816 | 57,556 |
| Current portion – notes payable (Note 7) | 107,496 | 102,649 |
| Total current liabilities | 482,080 | 193,439 |
| LONG-TERM LIABILITIES | | |
| Notes payable (Note 7) | 1,865,145 | 1,972,599 |
| Total liabilities | 2,347,225 | 2,166,038 |
| NET ASSETS | | |
| Without Donor Restrictions | 11,018,532 | 11,619,460 |
| With Donor Restrictions (Note 9) | 1,053,797 | 942,927 |
| Total net assets | 12,072,329 | 12,562,387 |
| Total liabilities and net assets | $ 14,419,554 | $ 14,728,425 |

The Notes to Financial Statements are an integral part of these statements.

**CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**

**STATEMENTS OF ACTIVITIES**
**Year Ended December 31, 2018 and Summarized for the Year Ended December 31, 2017**

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| **REVENUES, GAINS, AND OTHER SUPPORT** | | | | |
| Contributions and gifts | $ 894,007 | $ 219,409 | $ 1,113,416 | $ 937,410 |
| Grants | 185,485 | - | 185,485 | 84,275 |
| Bequests | 479,927 | - | 479,927 | 1,726,626 |
| Local government appropriations | 852,434 | - | 852,434 | 828,017 |
| Special events, net of related expenses of $83,299 | 423,467 | - | 423,467 | 389,465 |
| Rummage store sales | 664,315 | - | 664,315 | 533,689 |
| Program services fees | 782,757 | - | 782,757 | 635,283 |
| In-kind contributions | 56,585 | - | 56,585 | 46,079 |
| Income distributions from the Bleecker Trust | 36,243 | - | 36,243 | 21,765 |
| Investment income | 110,250 | - | 110,250 | 104,558 |
| Realized and unrealized gains (losses) on investments | (1,068,647) | - | (1,068,647) | 872,330 |
| Miscellaneous income | 294 | - | 294 | 338 |
| Change in value of beneficial interest in Bleecker Trust | - | (98,982) | (98,982) | 71,765 |
| Net assets released from restrictions (Note 11) | 9,557 | (9,557) | - | - |
| Total revenue, gains, and other support | 3,426,674 | 110,870 | 3,537,544 | 6,251,600 |
| **EXPENSES** | | | | |
| Program services | 3,463,077 | - | 3,463,077 | 3,173,356 |
| Management and general | 265,153 | - | 265,153 | 176,673 |
| Fundraising | 299,372 | - | 299,372 | 343,468 |
| Total expenses | 4,027,602 | - | 4,027,602 | 3,693,497 |
| Change in net assets | (600,928) | 110,870 | (490,058) | 2,558,103 |
| Beginning net assets | 11,619,460 | 942,927 | 12,562,387 | 10,004,284 |
| Ending net assets | $ 11,018,532 | $ 1,053,797 | $ 12,072,329 | $ 12,562,387 |

The Notes to Financial Statements are an integral part of these statements.

**CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**
**Year Ended December 31, 2018 and Summarized for the Year Ended December 31, 2017**

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total | Total |
| Salaries | $ 1,680,649 | $ 155,186 | $ 107,123 | $ 1,942,958 | $ 1,787,801 |
| Payroll taxes | 127,347 | 11,759 | 8,117 | 147,223 | 139,527 |
| Employee benefits | 250,645 | 23,144 | 15,976 | 289,765 | 256,286 |
| External veterinarians | 14,293 | - | - | 14,293 | 5,238 |
| Pet care | 131,368 | - | - | 131,368 | 93,412 |
| Clinic | 257,456 | - | - | 257,456 | 240,614 |
| Cleaning and janitorial | 37,510 | - | - | 37,510 | 28,101 |
| Utilities | 113,258 | 3,615 | 3,615 | 120,488 | 117,257 |
| Repairs and maintenance | 103,606 | - | - | 103,606 | 99,382 |
| Miscellaneous | 52,231 | 4,595 | 445 | 57,271 | 37,791 |
| Rent | 136,149 | - | - | 136,149 | 144,200 |
| Supplies and office systems | 54,739 | 18,223 | 44,914 | 117,876 | 106,272 |
| Equipment | 1,887 | - | - | 1,887 | 10,494 |
| Telephone | 18,933 | 713 | 713 | 20,359 | 23,462 |
| Advertising | 2,168 | - | - | 2,168 | 12,513 |
| In-kind services | 76,231 | - | - | 76,231 | 46,079 |
| Insurance | 36,732 | 1,323 | 1,323 | 39,378 | 27,174 |
| Legal and accounting fees | 14,533 | 31,081 | 8,433 | 54,047 | 49,886 |
| Bad debt expense | 14,737 | - | - | 14,737 | - |
| Recruiting | - | 4,707 | - | 4,707 | 4,080 |
| Other fundraising | - | - | 97,906 | 97,906 | 86,946 |
| Total expenses before depreciation and interest | 3,124,472 | 254,346 | 288,565 | 3,667,383 | 3,316,515 |
| Depreciation | 246,613 | 7,871 | 7,871 | 262,355 | 276,697 |
| Interest | 91,992 | 2,936 | 2,936 | 97,864 | 100,285 |
| Total expenses | $ 3,463,077 | $ 265,153 | $ 299,372 | $ 4,027,602 | $ 3,693,497 |

The Notes to Financial Statements are an integral part of these statements.

**CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**

## STATEMENTS OF CASH FLOWS
## Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (490,058) | $ 2,558,103 |
| Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities: | | |
| Realized and unrealized (gains)/losses on investments | 1,068,647 | (913,374) |
| Depreciation | 262,355 | 276,697 |
| Change in value of Bleecker Trust | 98,985 | (71,765) |
| (Increase) decrease in assets: | | |
| Accounts receivable | 48,335 | (42,315) |
| Other current assets | 3,042 | (19,735) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 112,723 | (109,681) |
| **Net cash and cash equivalents provided by operating activities** | 1,104,029 | 1,677,930 |
| **INVESTING ACTIVITIES** | | |
| Sales of investments | 3,285,082 | - |
| Purchases of investments | (1,701,444) | (1,242,922) |
| Increase in USDA loan reserve | - | (5,221) |
| Purchase of property and equipment | (2,377,088) | (452,832) |
| **Net cash and cash equivalents used in investing activities** | (793,450) | (1,700,975) |
| **FINANCING ACTIVITIES** | | |
| Principal repayments | (102,607) | (270,470) |
| **Net cash and cash equivalents used in financing activities** | (102,607) | (270,470) |
| **Net increase (decrease) in cash and cash equivalents** | 207,972 | (293,515) |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning | 422,884 | 716,399 |
| Ending | $ 630,856 | $ 422,884 |
| **SUPPLEMENTAL DISCLOSURE** | | |
| Purchases of property and equipment included in accounts payable | $ 171,071 | $ - |
| Cash paid for interest | $ 101,863 | $ 124,335 |

The Notes to Financial Statements are an integral part of these statements.

## Note 1. Significant Accounting Policies

The Charlottesville – Albemarle Society for the Prevention of Cruelty to Animals, Inc. (the "SPCA") provides a safe environment for the lost, abandoned, and homeless animals of Charlottesville and Albemarle County and places them in good homes. The SPCA strives to set a standard of excellence and leadership in animal care, humane education, and progressive animal welfare programs.

The following programs and supporting services are included in the accompanying financial statements:

Animal care and spay/neuter resources: The SPCA provides shelter, nourishment, and vaccinations for the animals which are brought to it. The SPCA also provides medical care treating minor illnesses frequently and often more severe medical conditions, including emergency veterinarian treatment. The SPCA spays or neuters each animal prior to adoption. In addition to assuring all the SPCA animals are spayed or neutered, the SPCA provides subsidized and free spay/neuter programs for low-income residents.

Adoption: The SPCA evaluates all animals for behavior and health issues prior to adoption. The SPCA finds homes for all healthy and behaviorally sound animals.

Management and general: This includes the functions necessary to ensure an adequate working environment, provide coordination and articulation of the SPCA's program strategy, and manage the financial and budgetary responsibilities of the SPCA.

Fundraising: This provides the structure necessary to encourage and secure private financial support.

Basis of financial statement presentation and accounting

The financial statements of the SPCA have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 accompanying financial statements present information regarding the SPCA's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. The two classes are differentiated based on the existence or absence of donor-imposed restrictions.

**Net Assets without Donor Restrictions** are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

(Continued)

## Note 1. Significant Accounting Policies (Continued)

Basis of financial statement presentation and accounting (Continued)

**Net Assets with Donor Restrictions** are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the SPCA pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

Cash and cash equivalents

Cash and cash equivalents consist of bank deposits and amounts invested in certificates of deposit with no permanently imposed donor restrictions. Short-term, highly liquid investments, such as mutual and money market funds that are components of externally managed investment portfolios, are classified as investments.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values, as determined by quoted market prices, in the statements of financial position. Net unrealized and realized gains or losses are reflected in the statements of activities.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date.

Accounts receivable

Accounts receivable are unsecured and are mainly due from local animal shelters and rescue groups. Management has determined that an allowance for uncollectible accounts is not necessary, as it follows the direct write-off method. The write-off method is believed to approximate the allowance method.

Property and equipment

Property and equipment is stated at cost or at fair value at the date of gift, less accumulated depreciation. Expenditures for new construction, major renewals and replacements, and equipment exceeding $1,000 are generally capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and improvements | 10-40 years |
| Furniture, fixtures, and equipment | 3-15 years |

(Continued)

## Note 1. Significant Accounting Policies (Continued)

Contributions

Contributions, including contributions receivable, are recognized as net assets with donor restrictions or net assets without donor restrictions, depending on the existence or absence of any donor restrictions, in the period the donor's commitment is received. Unconditional promises to give are recognized as net assets with donor restrictions revenues unless the donor explicitly stipulates its use to support current period activities.

Contributions of assets other than cash are recorded at their fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received with donor-imposed restrictions are reported as revenues of net assets with donor restrictions, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are recorded as revenues of net asset with donor restrictions, and a reclassification to net asset without donor restrictions is made to reflect the expiration of such restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of net assets without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of net assets with donor restrictions; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-kind contributions are received to support the operations of various programs and special events and are recognized at fair value.

Beneficial interest in Bleecker Trust

The SPCA participates in a split-interest agreement that is unconditional and irrevocable. This arrangement was established when a donor created the Bleecker Trust from which the SPCA receives benefits. The SPCA accounts for this agreement by recording its share of the present value of the estimated future cash receipts from the trust (which approximates its share of the related assets of the trust).

Functional allocation of expenses

The costs of providing the SPCA's programs and support services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program and support services benefited.

(Continued)

## Note 1. Significant Accounting Policies (Continued)

Fair value measurements

The SPCA carries various assets at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, a market-based approach is used. Additionally, the SPCA categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as reflected below. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

**Level 1 –** Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that management has the ability to access at the measurement date.

**Level 2 –** Fair values are based on inputs other than quoted prices that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3 –** Fair values are based on unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

Credit risk concentrations

Financial instruments which potentially subject the SPCA to concentrations of credit risk consist principally of cash and cash equivalents, investments, and the USDA loan reserve. A portion of the SPCA's bank deposits are in excess of federally insured limits.

Income taxes

The SPCA is an organization described in *Internal Revenue Code* ("*IRC*") §501(c)(3) and accordingly, is exempt from federal and state income taxes under *IRC* §501(a). The SPCA has also been classified as an organization which is not a private foundation under *IRC* §509(a)(2). Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

Advertising costs

The SPCA expenses the cost of advertising as incurred. Such costs amounted to $2,168 and $12,513 for the years ended December 31, 2018 and December 31, 2017, respectively.

(Continued)

**Note 1. Significant Accounting Policies (Continued)**

Comparative information

The financial statements include certain prior year summarized comparative information (statement of activities and statement of functional expenses) in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the prior year from which the summarized information was derived.

Reclassifications

Certain amounts in the prior year statements were reclassified to conform with current year presentation.

Not-for-Profit Financial Statement Presentation

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The SPCA has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Subsequent events

Subsequent events were considered through September 17, 2019, the date the financial statements were available to be issued.

(Continued)

## Note 2. Investments

Investments consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Money market funds | $ 962,706 | $ 1,834,418 |
| Fixed income funds | 352,730 | 351,737 |
| Mutual funds - equities: | | |
| Information technology | 1,499,179 | 2,236,917 |
| Healthcare | 381,303 | 696,873 |
| Financial service | - | 898,272 |
| Food service | - | 288,915 |
| Air freight and delivery | 237,486 | 514,480 |
| Equipment and machinery | 215,090 | - |
| Oil and gas | 263,736 | - |
| Commercial transportation | 433,952 | 663,049 |
| Consumer goods and services | 631,758 | - |
| Publicly traded partnership | 179,936 | 325,500 |
| | $ 5,157,876 | $ 7,810,161 |

(Continued)

## Note 2. Investments (Continued)

The following is a summary of the inputs used in determining the fair values of financial assets measured on a recurring basis:

| | 2018 | | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| Money market funds | $ 962,706 | $ 962,706 | $ - | $ - |
| Fixed income | 352,730 | - | 352,730 | - |
| Mutual funds – equities | 3,662,504 | 3,662,504 | - | - |
| Publicly traded partnership | 179,936 | 179,936 | - | - |
| Beneficial interest in Bleecker Trust | 710,666 | - | 710,666 | - |
| Total financial assets | $ 5,868,542 | $ 4,805,146 | $ 1,063,396 | $ - |

| | 2017 | | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| Money market funds | $ 2,171,403 | $ 2,171,403 | $ - | $ - |
| Fixed income | 351,737 | - | 351,737 | - |
| Mutual funds – equities | 4,961,521 | 4,961,521 | - | - |
| Publicly traded partnership | 325,500 | 325,500 | - | - |
| Beneficial interest in Bleecker Trust | 809,651 | - | 809,651 | - |
| Total financial assets | $ 8,619,812 | $ 7,458,424 | $ 1,161,388 | $ - |

Level 2 assets are valued by a third party.

(Continued)

## Note 2. Investments (Continued)

The fair value of investments is determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of funds held in trust by others is determined by the present value of expected future cash flows.

## Note 3. Conditional Contributions

At December 31, 2018, the SPCA had received bequests, intentions, and other conditional contributions receivable that were unable to be valued as of the date of the financial statements. These intentions to give are not recognized as assets until the conditions are essentially satisfied and valuation is determined.

## Note 4. Liquidity and Availability

The following table reflects the SPCA's financial assets as of December 31, 2018, reduced for amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action.

The SPCA has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the SPCA keeps three months of operating expenses and one year of debt service available at all times. The SPCA then invests cash in excess of requirements in various certificates of deposit and investment accounts.

| | |
|---|---|
| Financial assets: | |
| Cash and cash equivalents | $ 630,856 |
| Investments | 5,157,876 |
| Accounts receivable | 16,487 |
| Beneficial interest in Bleecker Trust | 710,666 |
| USDA loan reserve | 196,471 |
| Pace endowment | 26,000 |
| Total financial assets | 6,738,356 |
| Less those unavailable for general expenditure within one year: | |
| Beneficial interest in Bleecker Trust | (710,666) |
| USDA loan reserve | (196,471) |
| Restricted cash held for Pace endowment | (26,000) |
| Other purpose restrictions | (83,263) |
| Total unavailable assets | (1,016,400) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 5,721,956 |

(Continued)

## Note 5. Property and Equipment

Property and equipment consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 1,906,567 | $ 381,110 |
| Construction in progress | 1,347,197 | 330,313 |
| Buildings and improvements | 6,657,534 | 6,657,737 |
| Furniture, fixtures, and equipment | 778,797 | 773,195 |
| | 10,690,095 | 8,142,355 |
| Less: Accumulated depreciation | (3,046,135) | (2,784,199) |
| Net property and equipment | $ 7,643,960 | $ 5,358,156 |

In September 2018, the SPCA closed on the purchase of an adjoining parcel of land, which will be utilized for future expansion. Construction in progress consists of a renovation of the dog kennels.

## Note 6. Accrued Expenses

Accrued expenses consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Interest | $ 3,999 | $ - |
| Vacation | 30,277 | 13,260 |
| Salaries | 43,727 | 37,274 |
| Other | 7,813 | 7,022 |
| | $ 85,816 | $ 57,556 |

(Continued)

## Note 7. Notes Payable

Notes payable consist of the following:

| | 2018 | 2017 |
|---|---|---|
| USDA construction loan, interest at 4.625%, annual installments, including interest, of $196,471 through October 2032, secured by a deed of trust. | $ 1,972,641 | $ 2,075,248 |
| | 1,972,641 | 2,075,248 |
| Less current portion | (107,496) | (102,649) |
| | $ 1,865,145 | $ 1,972,599 |

Debt matures as follows:

| | |
|---|---|
| 2019 | $ 107,496 |
| 2020 | 112,575 |
| 2021 | 117,893 |
| 2022 | 123,463 |
| 2023 | 129,295 |
| Thereafter | 1,381,919 |
| | $ 1,972,641 |

The USDA construction loan security agreement requires the SPCA to establish a reserve account of $196,471, which is equal to one annual installment of principal and interest. It may be used to pay certain costs as approved by the lender.

## Note 8. Employee Benefits

Retirement benefits are provided for eligible employees through a simple IRA plan. The SPCA contributes up to 3% of the employee's salary which totaled $15,042 and $15,712 in 2018 and 2017, respectively.

(Continued)

## Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of:

| | 2018 | 2017 |
|---|---|---|
| Endowments | $ 736,666 | $ 835,651 |
| Capital contributions | 317,131 | 107,276 |
| | $ 1,053,797 | $ 942,927 |

## Note 10. Endowments

Endowments are composed of the following:

| | 2018 | 2017 |
|---|---|---|
| Bleecker Trust | $ 710,666 | $ 809,651 |
| Pace Endowment | 26,000 | 26,000 |
| | $ 736,666 | $ 835,651 |

The following schedule summarizes changes in endowment net assets:

| | 2018 | 2017 |
|---|---|---|
| Endowment net assets, beginning of year | $ 835,651 | $ 763,886 |
| Investment return: | | |
| Interest and dividends | 15,156 | 93,260 |
| Realized and unrealized gains/(losses) | (65,572) | 12,362 |
| Investment fees | (12,326) | (12,092) |
| Total investment return/(loss) | (62,742) | 93,530 |
| Distributions | (36,243) | (21,765) |
| Endowment net assets, end of year | $ 736,666 | $ 835,651 |

(Continued)

## Note 10. Endowments (Continued)

The SPCA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner to preserve and expand the SPCA's purchasing power in perpetuity through sustained growth in its investment assets. To satisfy its investment objective, the SPCA relies on an overall investment program that is prudently diversified across a variety of asset classes, economic characteristics and security issuers. The intended target rate of return over a full market cycle should be at least adequate to compensate for the total of the targeted spending, prevailing inflation, and anticipated SPCA expenses of the same period. Actual returns in any given year may vary from the targeted rate of return. The investment strategy includes target asset allocations, acceptable ranges around those targets, and a rebalancing policy.

The SPCA is permitted to use all interest earned on the PACE endowment towards operations. The Bleecker Trust distributes up to 5% of the net fair value of the assets in the trust to the SPCA throughout the year.

## Note 11. Net Assets Released from Restrictions

Net assets released from restrictions for capital improvements were $9,557 and $55,000 in 2018 and 2017, respectively.

## Note 12. Leases

The SPCA is currently obligated under a lease for facilities through January 1, 2021. Future minimum lease payments are as follows:

| | |
|---|---|
| 2019 | $ 148,972 |
| 2020 | 153,441 |
| | $ 302,413 |

(Continued)

## Note 13. New Accounting Standards

The Financial Accounting Standards Board (FASB) has issued the following Statements which are not yet effective.

*The FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers*. The standard will eliminate the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The effective date for nonpublic companies is annual reporting periods beginning after December 15, 2018.

*The FASB issued ASU 2016-02, Leases*. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. Nonpublic entities are required to adopt the new leases standard for reporting periods beginning after December 15, 2019. Early adoption is permitted.

Management has not determined the effects these new FASB Statements may have on prospective financial statements but will be assessing these changes in 2019 with the assistance of its accountants.