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

FINANCIAL REPORT

December 31, 2019

CONTENTS

BROWNEDWARDS
certified public accountants

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, 2019, 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 2018 financial statements, and in our report dated April 24, 2020 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, 2019, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the CASPCA changed its method of accounting revenue, effective January 1, 2019 due to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
April 24, 2020

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

STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 536,947	$ 630,856
Investments (Note 2)	5,290,185	5,157,876
Accounts receivable	30,920	16,487
Other current assets	108,142	37,238
Total current assets	5,966,194	5,842,457
PROPERTY AND EQUIPMENT, net (Note 5)	7,851,943	7,643,960
OTHER ASSETS		
Beneficial interest in Bleecker Trust (Notes 2 and 10)	800,397	710,666
USDA loan reserve (Note 7)	196,471	196,471
Restricted cash held for Pace endowment (Note 10)	26,000	26,000
Total other assets	1,022,868	933,137
Total assets	$ 14,841,005	$ 14,419,554
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 63,117	$ 288,768
Accrued expenses (Note 6)	112,800	85,816
Unearned Revenue (Note 1)	68,289	-
Current portion – notes payable (Note 7)	112,575	107,496
Total current liabilities	356,781	482,080
LONG-TERM LIABILITIES		
Notes payable (Note 7)	1,752,564	1,865,145
Total liabilities	2,109,345	2,347,225
NET ASSETS		
Without Donor Restrictions	11,808,988	11,018,532
With Donor Restrictions (Note 9)	922,672	1,053,797
Total net assets	12,731,660	12,072,329
Total liabilities and net assets	$ 14,841,005	$ 14,419,554

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, 2019 and Summarized for the Year Ended December 31, 2018

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions and gifts	$ 713,824	$ 245,000	$ 958,824	$ 1,113,416
Grants	372,503	-	372,503	185,485
Bequests	301,987	-	301,987	479,927
Local government appropriations	876,842	-	876,842	852,434
Special events, net of related expenses of $106,969	443,679	-	443,679	423,467
Rummage store sales	739,620	-	739,620	664,315
Program services fees	835,306	-	835,306	782,757
In-kind contributions	73,396	-	73,396	56,585
Income distributions from the Bleecker Trust	35,992	-	35,992	36,243
Investment income	100,562	-	100,562	110,250
Realized and unrealized gains (losses) on investments	663,538	-	663,538	(1,068,647)
Loss on disposal of assets	(78,973)	-	(78,973)	-
Miscellaneous income	5,038	-	5,038	294
Change in value of beneficial interest in Bleecker Trust	-	89,706	89,706	(98,982)
Net assets released from restrictions (Note 11)	465,831	(465,831)	-	-
Total revenue, gains, and other support	5,549,145	(131,125)	5,418,020	3,537,544
EXPENSES				
Program services	3,835,880	-	3,835,880	3,463,077
Management and general	421,517	-	421,517	265,153
Fundraising	501,292	-	501,292	299,372
Total expenses	4,758,689	-	4,758,689	4,027,602
Change in net assets	790,456	(131,125)	659,331	(490,058)
Beginning net assets	11,018,532	1,053,797	12,072,329	12,562,387
Ending net assets	$ 11,808,988	$ 922,672	$ 12,731,660	$ 12,072,329

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

STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2019 and Summarized for the Year Ended December 31, 2018

	2019				2018
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 1,850,142	$ 193,765	$ 249,184	$ 2,293,091	$ 1,942,958
Payroll taxes	144,154	15,097	19,415	178,666	147,223
Employee benefits	227,563	23,834	30,649	282,046	289,765
External veterinarians	18,308	-	-	18,308	14,293
Pet care	206,885	-	-	206,885	131,368
Clinic	299,500	-	-	299,500	257,456
Cleaning and janitorial	62,190	-	-	62,190	37,510
Utilities	117,434	3,748	3,748	124,930	120,488
Repairs and maintenance	120,105	-	-	120,105	103,606
Miscellaneous	71,643	3,177	-	74,820	57,271
Rent	148,972	-	-	148,972	136,149
Supplies and office systems	51,391	17,741	34,010	103,142	117,876
Equipment	4,599	-	-	4,599	1,887
Telephone	21,563	812	812	23,187	20,359
Advertising	840	-	-	840	2,168
In-kind services	73,396	-	-	73,396	76,231
Insurance	46,911	1,689	1,689	50,289	39,378
Professional fees	12,954	147,363	11,750	172,067	54,047
Bad debt expense	-	-	-	-	14,737
Recruiting	-	2,886	-	2,886	4,707
Other fundraising	-	-	138,630	138,630	97,906
Total expenses before depreciation and interest	3,478,550	410,112	489,887	4,378,549	3,667,383
Depreciation	273,904	8,742	8,742	291,388	262,355
Interest	83,426	2,663	2,663	88,752	97,864
Total expenses	$ 3,835,880	$ 421,517	$ 501,292	$ 4,758,689	$ 4,027,602

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, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 659,331	$ (490,058)
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Realized and unrealized (gains)/losses on investments	(663,538)	1,068,647
Depreciation	291,388	262,355
Loss on disposal of property and equipment	(73,170)	-
Change in value of Bleecker Trust	(89,731)	98,985
(Increase) decrease in assets:		
Accounts receivable	(14,433)	48,335
Other current assets	(70,904)	3,042
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	40,693	112,723
Net cash and cash equivalents provided by (used in) operating activities	79,636	1,104,029
INVESTING ACTIVITIES		
Sales of investments	938,941	3,285,082
Purchases of investments	(407,712)	(1,701,444)
Purchase of property and equipment	(597,272)	(2,377,088)
Net cash and cash equivalents provided by (used in) investing activities	(66,043)	(793,450)
FINANCING ACTIVITIES		
Principal repayments	(107,502)	(102,607)
Net cash and cash equivalents used in financing activities	(107,502)	(102,607)
Net increase (decrease) in cash and cash equivalents	(93,909)	207,972
CASH AND CASH EQUIVALENTS		
Beginning	630,856	422,884
Ending	$ 536,947	$ 630,856
SUPPLEMENTAL DISCLOSURE		
Purchases of property and equipment included in accounts payable	$ -	$ 171,071
Cash paid for interest	$ 88,534	$ 101,863

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)

Unearned Revenue

Unearned revenue consists of funds received from the City of Charlottesville for kennel services to be provided by the entity in the first quarter of 2020.

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 when the assets are placed in service.

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).

(Continued)

Note 1. Significant Accounting Policies (Continued)

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.

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.

(Continued)

Note 1. Significant Accounting Policies (Continued)

Advertising costs

The SPCA expenses the cost of advertising as incurred. Such costs amounted to $840 and $2,168 for the years ended December 31, 2019 and December 31, 2018, respectively.

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.

Adoption of new revenue recognition guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The new standard affects any entity that enters into contracts with customers for the transfer of goods or services. 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 goods or services.

To achieve that core principle, an entity should apply the following steps: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligation in the contract, and (5) recognize revenue when, or as, the entity satisfies the performance obligation.

The SPCA receives support through grants. Grant revenue is recognized and recorded upon receipt. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the SPCA with the requirements of the grant in effect for the term of the grant.

The Organization also receives contributions from local governments, businesses and the general public. Revenue generated from fundraising activities are recorded in the period the donor’s commitment is received and are not considered contractual in nature. See note 9 for discussion on net assets with donor restrictions and releases from restrictions.

The SPCA receives revenue from Rummage Store sales and programs including adoption fees that are recognized as revenue upon receipt. Refer to Note 13 for further information.

Note 1. Significant Accounting Policies (Continued)

Adoption of new revenue recognition guidance (Continued)

The SPCA adopted ASU 2014-09 and all amendments beginning in 2019. Consistent with the modified retrospective adoption method, prior reporting period results remain unchanged and reported in accordance with ASC 605. As it relates to the SPCA's contracts to deliver animals and spay/neuter services to customers, the guidance in ASC 606 is consistent with the guidance in ASC 605; therefore, the modified retrospective approach resulted in no cumulative catch-up to retained earnings. Furthermore, there was no significant impact to revenues recognized, and no significant changes to the SPCA's related business processes, systems, or internal control over financial reporting because of the new guidance.

Subsequent events

Subsequent events have been evaluated through April 24, 2020, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the fair value of the investments held by the SPCA and related investment earnings. Other financial impact could occur though such potential impact is unknown at this time.

Note 2. Investments

Investments consist of the following:

	2019	2018
Money market funds	$ 962,502	$ 962,706
Fixed income funds	499,688	352,730
Mutual funds - equities:		
Information technology	1,691,291	1,499,179
Healthcare	219,899	381,303
Financial service	261,888	-
Air freight and delivery	199,597	237,486
Equipment and machinery	250,099	215,090
Oil and gas	-	263,736
Commercial transportation	507,301	433,952
Consumer goods and services	191,929	631,758
Chemicals	261,226	-
Publicly traded partnership	244,765	179,936
	$ 5,290,185	$ 5,157,876

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:

	2019			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Investments:				
Money market funds	$ 962,502	$ 962,502	$ -	$ -
Fixed income	499,688	-	499,688	-
Mutual funds – equities	3,583,230	3,583,230	-	-
Publicly traded partnership	244,765	244,765	-	-
Beneficial interest in Bleecker Trust	800,397	-	800,397	-
Total financial assets	$ 6,090,582	$ 4,790,497	$ 1,300,085	$ -

	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	$ -

Level 2 assets are valued by a third party using inputs other than quoted prices in Level 1 include values of 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.

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, 2019, 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, 2019, 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 invests cash in excess of current needs in various certificates of deposit and investment accounts.

Financial assets:	
Cash and cash equivalents	$ 536,947
Investments	5,290,185
Accounts receivable	30,920
Beneficial interest in Bleecker Trust	800,397
USDA loan reserve	196,471
Pace endowment	26,000
Total financial assets	6,880,920
Less those unavailable for general expenditure within one year:	
Beneficial interest in Bleecker Trust	(800,397)
USDA loan reserve	(196,471)
Restricted cash held for Pace endowment	(26,000)
Other purpose restrictions	(110,870)
Total unavailable assets	(1,133,738)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,747,182

(Continued)

Note 5. Property and Equipment

Property and equipment consist of the following:

	2019	2018
Land	$ 1,914,467	$ 1,906,567
Construction in progress	98,772	1,347,197
Buildings and improvements	8,277,448	6,657,534
Furniture, fixtures, and equipment	825,609	778,797
	11,116,296	10,690,095
Less: Accumulated depreciation	(3,264,353)	(3,046,135)
Net property and equipment	$ 7,851,943	$ 7,643,960

Construction in progress consists of $21,990 for a Security System Replacement and the remaining balance relates to Phases 2-4 of the Cat Facility.

Note 6. Accrued Expenses

Accrued expenses consist of the following:

	2019	2018
Interest	$ 3,781	$ 3,999
Vacation	35,318	30,277
Salaries	59,364	43,727
Other	14,337	7,813
	$ 112,800	$ 85,816

Note 7. Notes Payable

Notes payable consist of the following:

	2019	2018
USDA construction loan, interest at 4.625%, annual installments, including interest, of $196,471 through October 2032, secured by a deed of trust.	$ 1,865,139	$ 1,972,641
	1,865,139	1,972,641
Less current portion	(112,575)	(107,496)
	$ 1,752,564	$ 1,865,145

Debt matures as follows:

2020	$ 112,575
2021	117,893
2022	123,463
2023	129,295
2024	135,404
Thereafter	1,246,509
	$ 1,865,139

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 $18,269 and $15,042 in 2019 and 2018, respectively.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of:

	2019	2018
Endowments	$ 826,397	$ 736,666
Capital contributions	96,275	317,131
	$ 922,672	$ 1,053,797

Note 10. Endowments

Endowments are composed of the following:

	2019	2018
Bleecker Trust	$ 800,397	$ 710,666
Pace Endowment	26,000	26,000
	$ 826,397	$ 736,666

The following schedule summarizes changes in endowment net assets:

	2019	2018
Endowment net assets, beginning of year	$ 736,666	$ 835,651
Investment return:		
Interest and dividends	6,950	15,156
Realized and unrealized gains/(losses)	130,816	(65,572)
Investment fees	(12,043)	(12,326)
Total investment return/(loss)	125,753	(62,742)
Distributions	(35,992)	(36,243)
Endowment net assets, end of year	$ 826,397	$ 736,666

(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 $465,831 and $9,557 in 2019 and 2018, respectively.

Note 12. Leases

The SPCA is currently obligated under a lease for facilities through January 1, 2021 and a copier lease through October 31, 2024. Future minimum lease payments are as follows:

2020	$ 156,201
2021	2,760
2022	2,760
2023	2,760
2024	2,300
	$ 166,781

Note 13. Revenue Recognition

The SPCA assesses new contracts and identifies related performance obligations for promises to transfer distinct goods or services to customers. Revenue is recognized as performance obligations under the terms of a contract are satisfied. The SPCA charges fees for adoptions, spay/neuter, and other services which are recognized at the point of sale. Refer to note 1 for discussion of contributions and grant revenue recognition.

The following table summarizes revenue by the SPCA's main sources of revenue for the years ended December 31:

	2019	2018
Contracts with customers:		
Adoptions	$ 333,369	$ 289,081
Spay/Neuter	236,845	232,269
Rummage Store	739,620	664,315
Clinic services	111,673	120,736
All others	153,419	140,671
	$ 1,574,926	$ 1,447,072

Contract Balances:

	2019	2018
Accounts receivable		
Beginning of year	$ 16,487	$ 64,822
End of year	30,920	16,487

Economic Factors:

Since the SPCA generates its revenue from individuals out of their discretionary income, its revenue sources are directly linked to the local and regional economy. These factors could impact the amount, timing, and uncertainty of revenue and cash flows.

Use of Practical Expedients

The SPCA provides payment terms in its customer contracts. The SPCA has determined that the financing element of such contracts is not significant and elected to not account for the financing component of those contracts under applicable accounting standards.

Note 14. New Accounting Standard

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

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, 2020. Early adoption is permitted.

Management has not determined the effects this new FASB Statement may have on prospective financial statements but will be assessing these changes in 2020 with the assistance of its accountants.