

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF WINCHESTER,
FREDERICK AND CLARKE COUNTIES, INC.

Winchester, Virginia

FINANCIAL REPORT

June 30, 2017

FINANCIAL STATEMENTS

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF WINCHESTER,
FREDERICK AND CLARKE COUNTIES, INC.

Years Ended June 30, 2017 and 2016

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF WINCHESTER,
FREDERICK AND CLARKE COUNTIES, INC.
Winchester, Virginia

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RUTHERFORD & JOHNSON, P.C.

Certified Public Accountants & Business Advisors

116 Medical Circle
Winchester, Virginia 22601

Independent Auditor's Report

To the Board of Directors of
The Society for the Prevention of Cruelty to Animals of
Winchester, Frederick and Clarke Counties, Inc.

We have audited the accompanying financial statements of the Society for the Prevention of Cruelty to Animals of Winchester, Frederick and Clarke Counties, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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.

Basis for Qualified Opinion

The Society for the Prevention of Cruelty to Animals of Winchester, Frederick and Clarke Counties, Inc. values donated inventory by using a percentage of monthly average sales, and is carried at \$124,069 and \$138,513 on the statements of financial position as of June 30, 2017 and 2016, respectively. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of inventory as of June 30, 2017 and 2016, since a physical inventory was not taken. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Society for the Prevention of Cruelty to Animals of Winchester, Frederick and Clarke Counties, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


RUTHERFORD & JOHNSON, P.C.

Winchester, Virginia

December 18, 2017

THE SOCIETY FOR THE PREVENTION OF
 CRUELTY TO ANIMALS OF WINCHESTER,
 FREDERICK AND CLARKE COUNTIES, INC.
 Winchester, Virginia

STATEMENTS OF
 FINANCIAL POSITION

ASSETS

	June 30,	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash	\$ 301 891	\$ 42 808
Investments	1 280 903	888 937
Inventory	146 957	149 443
Prepaid expenses	<u>15 585</u>	<u>17 703</u>
TOTAL CURRENT ASSETS	<u>1 745 336</u>	<u>1 098 891</u>
PROPERTY AND EQUIPMENT:		
Buildings and Improvements	1 634 950	1 618 282
Land	305 500	305 500
Equipment	271 149	287 928
Vehicles	<u>14 431</u>	<u>46 684</u>
	2 226 030	2 258 394
Less accumulated depreciation	<u>(400 773)</u>	<u>(396 316)</u>
PROPERTY AND EQUIPMENT, NET	<u>1 825 257</u>	<u>1 862 078</u>
OTHER ASSETS:		
Loan fees, net of accumulated amortization of \$2,024 and \$1,459	6 447	7 012
Deposits	<u>5 266</u>	<u>5 266</u>
TOTAL OTHER ASSETS	<u>11 713</u>	<u>12 278</u>
TOTAL ASSETS	<u><u>\$ 3 582 306</u></u>	<u><u>\$ 2 973 247</u></u>

(See accompanying

EXHIBIT "A"

	June 30,	
	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 26 472	\$ 34 515
Accrued expenses	20 704	35 661
Income tax payable	2 356	4 469
Current portion of long-term debt	<u>55 168</u>	<u>53 033</u>
TOTAL CURRENT LIABILITIES	104 700	127 678
LONG-TERM DEBT, less current portion	<u>729 821</u>	<u>784 497</u>
TOTAL LIABILITIES	<u>834 521</u>	<u>912 175</u>
NET ASSETS:		
Unrestricted - board designated	184 215	183 160
Unrestricted - undesignated	2 457 629	1 739 805
Temporarily restricted	<u>105 941</u>	<u>138 107</u>
TOTAL NET ASSETS	<u>2 747 785</u>	<u>2 061 072</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3 582 306</u></u>	<u><u>\$ 2 973 247</u></u>

Notes to Financial Statements.)

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF WINCHESTER,
FREDERICK AND CLARKE COUNTIES, INC.
Winchester, Virginia

STATEMENTS OF ACTIVITIES

EXHIBIT "B"

	Year Ended June 30, 2017			Year Ended June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND SUPPORT:						
Program revenue	\$ 55 655	\$ -	\$ 55 655	\$ 69 124	\$ -	\$ 69 124
City of Winchester revenue	120 000	-	120 000	120 000	-	120 000
Special events	\$ 25 395					
Less direct benefits expense	<u>(9 001)</u>	-	16 394	19 094	-	19 094
Contributions	1 007 774	5	1 007 779	109 210	3 000	112 210
In-kind contributions	61 141	-	61 141	42 137	-	42 137
Membership fees	2 557	-	2 557	3 477	-	3 477
Rental income	55 620	-	55 620	74 160	-	74 160
Other income	193	-	193	45	-	45
Investment income, net	11 092	-	11 092	11 171	-	11 171
Realized and unrealized gains on investments	53 684	-	53 684	-	-	-
Total before Thrift Store Activity	<u>1 384 110</u>	<u>5</u>	<u>1 384 115</u>	<u>448 418</u>	<u>3 000</u>	<u>451 418</u>
Thrift Store - sales	381 102	-	381 102	415 987	-	415 987
Thrift Store - in-kind contributions	364 443	-	364 443	368 175	-	368 175
Thrift Store - direct benefit costs and expenses	<u>(660 133)</u>	<u>-</u>	<u>(660 133)</u>	<u>(757 726)</u>	<u>-</u>	<u>(757 726)</u>
Thrift Store - Total	<u>85 412</u>	<u>-</u>	<u>85 412</u>	<u>26 436</u>	<u>-</u>	<u>26 436</u>
Net assets released from restrictions:						
Restrictions satisfied by payments	32 171	(32 171)	-	11 313	(11 313)	-
TOTAL REVENUES, GAINS AND SUPPORT	<u>1 501 693</u>	<u>(32 166)</u>	<u>1 469 527</u>	<u>486 167</u>	<u>(8 313)</u>	<u>477 854</u>
EXPENSES AND LOSSES:						
Program services	532 939	-	532 939	792 091	-	792 091
Supporting services:						
Management and general	241 111	-	241 111	140 824	-	140 824
Fundraising	8 764	-	8 764	36	-	36
Realized and unrealized losses on investments	-	-	-	72 449	-	72 449
TOTAL EXPENSES AND LOSSES	<u>782 814</u>	<u>-</u>	<u>782 814</u>	<u>1 005 400</u>	<u>-</u>	<u>1 005 400</u>
CHANGE IN NET ASSETS	<u>718 879</u>	<u>(32 166)</u>	<u>686 713</u>	<u>(519 233)</u>	<u>(8 313)</u>	<u>(527 546)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>1 922 965</u>	<u>138 107</u>	<u>2 061 072</u>	<u>2 442 198</u>	<u>146 420</u>	<u>2 588 618</u>
NET ASSETS AT END OF YEAR	<u>\$ 2 641 844</u>	<u>\$ 105 941</u>	<u>\$ 2 747 785</u>	<u>\$ 1 922 965</u>	<u>\$ 138 107</u>	<u>\$ 2 061 072</u>

(See accompanying Notes to Financial Statements.)

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF WINCHESTER,
FREDERICK AND CLARKE COUNTIES, INC.
Winchester, Virginia

STATEMENTS OF FUNCTIONAL EXPENSES

EXHIBIT "C"

Year Ended June 30, 2017

	Support Services			Subtotal	Direct Benefits - Thrift Store	Total
	Program Services	Management and General	Fundraising			
EXPENSES:						
Personnel costs:						
Salaries	\$ 176 465	\$ 111 881	\$ 5 234	\$ 293 580	\$ 106 670	\$ 400 250
Employee benefits	28 754	24 075	1 412	54 241	33 682	87 923
Payroll taxes	15 217	8 559	400	24 176	7 950	32 126
Total Personnel Costs	220 436	144 515	7 046	371 997	148 302	520 299
Other operating expenses:						
Accounting and legal fees	-	42 652	-	42 652	-	42 652
Advertising	2 161	3 725	1 603	7 489	278	7 767
Bank fees	1 552	843	-	2 395	7 532	9 927
Community Assistance	30 600	-	-	30 600	-	30 600
Conferences and travel	-	30	-	30	-	30
Cost of items sold	-	-	-	-	378 887	378 887
Depreciation and amortization	50 466	14 319	-	64 785	859	65 644
Insurance	20 113	4 262	-	24 375	6 919	31 294
Interest expense	16 553	16 473	-	33 026	9	33 035
Meals and entertainment	2 007	1 426	-	3 433	396	3 829
Miscellaneous	7 885	309	-	8 194	3 416	11 610
Office expense	7 326	1 593	-	8 919	2 662	11 581
Repairs and maintenance	30 733	4 555	-	35 288	621	35 909
Rent	-	-	-	-	86 698	86 698
Shelter expenses	67 593	-	-	67 593	-	67 593
Spay-Neuter expenses	32 033	-	-	32 033	-	32 033
Taxes and licenses	8 027	5 909	115	14 051	868	14 919
Telephone	4 578	-	-	4 578	2 985	7 563
Utilities	29 487	454	-	29 941	16 701	46 642
Vehicle expense	1 389	46	-	1 435	3 000	4 435
Total Other Operating Expenses	312 503	96 596	1 718	410 817	511 831	922 648
Less expenses included with revenue	-	-	-	-	(660 133)	(660 133)
TOTAL FUNCTIONAL EXPENSES	\$ 532 939	\$ 241 111	\$ 8 764	\$ 782 814	\$ -	\$ 782 814

(See accompanying Notes to Financial Statements.)

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF WINCHESTER,
FREDERICK AND CLARKE COUNTIES, INC.
Winchester, Virginia

STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

EXHIBIT "C"

Year Ended June 30, 2016						
	Support Services			Subtotal	Direct Benefits - Thrift Store	Total
	Program Services	Management and General	Fundraising			
EXPENSES:						
Personnel costs:						
Salaries	\$ 325 674	\$ 45 013	\$ -	\$ 370 687	\$ 153 418	\$ 524 105
Employee benefits	39 556	5 467	-	45 023	38 851	83 874
Payroll taxes	27 288	3 344	-	30 632	11 654	42 286
Total Personnel Costs	392 518	53 824	-	446 342	203 923	650 265
Other operating expenses:						
Accounting and legal fees	-	38 599	-	38 599	-	38 599
Advertising	138	-	-	138	4 790	4 928
Bank fees	2 481	226	-	2 707	7 974	10 681
Conferences and travel	1 648	-	-	1 648	-	1 648
Cost of items sold	-	-	-	-	415 540	415 540
Depreciation and amortization	55 761	14 219	-	69 980	1 799	71 779
Insurance	16 686	9 835	-	26 521	3 627	30 148
Interest expense	16 067	16 059	-	32 126	-	32 126
Meals and entertainment	235	109	-	344	226	570
Miscellaneous	3 996	772	-	4 768	1 573	6 341
Office expense	6 702	441	36	7 179	4 514	11 693
Repairs and maintenance	8 424	411	-	8 835	581	9 416
Rent	-	-	-	-	86 508	86 508
Shelter expenses	195 309	-	-	195 309	-	195 309
Spay-Neuter expenses	36 494	-	-	36 494	-	36 494
Taxes and licenses	7 989	6 329	-	14 318	913	15 231
Telephone	5 168	-	-	5 168	3 503	8 671
Utilities	40 025	-	-	40 025	20 284	60 309
Vehicle expense	2 450	-	-	2 450	1 971	4 421
Total Other Operating Expenses	399 573	87 000	36	486 609	553 803	1 040 412
Less expenses included with revenue	-	-	-	-	(757 726)	(757 726)
TOTAL FUNCTIONAL EXPENSES	\$ 792 091	\$ 140 824	\$ 36	\$ 932 951	\$ -	\$ 932 951

(See accompanying Notes to Financial Statements.)

THE SOCIETY FOR THE PREVENTION OF
 CRUELTY TO ANIMALS OF WINCHESTER,
 FREDERICK AND CLARKE COUNTIES, INC.
 Winchester, Virginia

STATEMENTS OF CASH FLOWS

EXHIBIT "D"

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 686 713	\$ (527 546)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	65 644	71 779
Gain on sale of fixed assets	(145)	-
Net realized and unrealized gains on investments	53 684	(72 449)
Investment income reinvested	11 092	11 069
Net (increase) decrease in:		
Rents receivable	-	445
Inventory	2 486	52 167
Prepaid expenses	2 118	17 357
Deposits	-	801
Net increase (decrease) in:		
Accounts payable	(8 043)	(24 658)
Accrued expenses	(14 957)	2 387
Income tax payable	(2 113)	(754)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>796 479</u>	<u>(469 402)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of buildings, land and equipment	(34 013)	(11 313)
Purchases of investments	(807 255)	(114 072)
Proceeds from sale of assets	5 900	-
Proceeds from sales of investments	350 513	612 730
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(484 855)</u>	<u>487 345</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long term debt	(52 541)	(53 370)
CHANGE IN CASH	259 083	(35 427)
CASH AT BEGINNING OF YEAR	<u>42 808</u>	<u>78 235</u>
CASH AT END OF YEAR	<u>\$ 301 891</u>	<u>\$ 42 808</u>

(See accompanying Notes to Financial Statements.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Society for the Prevention of Cruelty to Animals of Winchester, Frederick and Clarke Counties, Inc., (“Society”) was incorporated in the Commonwealth of Virginia on February 7, 1907. The Society is a not-for-profit Shelter exempt from Federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code.

The Society’s mission is to provide a safe, nurturing and temporary environment to homeless animals, facilitate transition of companion animals to loving homes, promote spaying and neutering of all companion animals, advocate against animal abuse and educate the community about animal health, welfare and adoption issues, and take a leadership role in advocating for compassionate treatment of animals.

The Society’s vision is to set a standard of excellence for appropriate animal care, improve community awareness of animal issues and SPCA roles, place every adoptable companion animal, advocate for appropriate management of feral animals, and spay and neuter all dogs and cats in their care.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Society presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Accordingly, the Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Society. Board-designated net assets represent amounts the Society has set aside for a specific purpose.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Temporarily restricted net assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions.”

Permanently restricted net assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations. The Society does not have any permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments with original maturities of three months or less.

Trade Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a change to the valuation allowance and a credit to trade accounts receivable. At June 30, 2017 and 2016, management considers all receivables to be collectible and no allowance was recorded.

Inventory

The Society adopted FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*, which states that donated inventory is measured at its fair value. To determine the fair value of the contributed inventory, the organization may use estimates, averages or computational approximations if the use of those methods is applied consistently and the results of applying those methods are reasonably expected not to be materially different from the results of a detailed measurement of the fair value of contributed inventory.

The majority of the inventory of the Society is contributed. At the end of its fiscal year, the Society estimates the value of donated goods on hand and records the amount as inventory with a corresponding adjustment to contributions. Donated goods located on the sales floor of the thrift shop are valued by calculating an average of four months of donated sales using the average of the last twelve months of donated sales. Lastly, inventory located at the shelter and adoption center are counted at the end of the fiscal year, and a value is determined based on estimated costs for those goods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Fair Value Measurement

The Society adopted FASB ASC 820, *Fair Value Measurements and Disclosures*, for assets and liabilities measured at fair value on a recurring basis. FASB ASC 820 defines fair value 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. Additionally, FASB ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1 – Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions

The Society's financial instruments consist primarily of cash, investments, accounts receivable, and accounts payable.

The carrying amount of cash, pledges receivable, and accounts payable approximate their fair value due to the short-term nature of such instruments. Investments are valued using Level 1 inputs.

Property and Equipment

The Society capitalizes all property and equipment expenditures with a cost of \$500 or more and having estimated useful lives of more than one year. Property and equipment are recorded at cost or, for donated items, at fair value as of the date received. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense when incurred.

When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the activities for the respective period. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 40 years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Contributed Services

No amounts have been reflected in the financial statements for donated services. The Society generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Society, but these services do not meet the criteria for recognition as contributed services.

In-kind Contributions

FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition* requires that contributions received shall be recognized as revenues or gains in the period received, which includes donated resources if they can be used internally by the not-for-profit entity or sold by the not-for-profit. The Society accepts donations of dog and cat supplies to be used within the shelter as well as donations of goods to be sold at their Thrift shop. When items are donated to the Society, they are recorded at their fair market value as an in-kind contribution.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Functional Expenses

Functional expenses have been allocated between Program Services and Supporting Services based on a management analysis of personnel time and space utilized for the related activities.

Income Taxes

The Society is exempt from Federal and State income taxes under Internal Revenue Code Section 501(c)(3) generally. However, a provision for Unrelated Business Income Tax related to the debt-financed rental property has been recorded. The 501(c)(3) Code Section enables the Society to accept donations, which qualify as charitable contributions to the donor.

The organization pays unrelated business income tax on a debt financed property that it rents to another organization. Generally, the Society's tax returns remain open for three years for federal income tax examination.

2. CASH CONCENTRATIONS:

The Society maintains its cash accounts at financial institutions in Virginia. The cash balances are insured by the FDIC up to \$250,000 per institution. As of June 30, 2017 and 2016, the cash balances exceed the FDIC limit by \$51,391 and \$0, respectively.

3. INVENTORY:

The majority of the inventory balances arise from donated goods received during the year. The inventory balances consisted of the following components:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Thrift shop inventory	\$ 124 069	\$ 138 513
Adoption center inventory	16 549	3 144
Shelter inventory	<u>6 339</u>	<u>7 786</u>
	<u>\$ 146 957</u>	<u>\$ 149 443</u>

Thrift shop inventory consists of donated clothing, household goods, furniture, and various other items which are held for sale at the thrift shops. At the end of its fiscal year, the Society estimates the value of goods located on the sales floor of the thrift shops and records the amount as inventory with a corresponding adjustment to contributions. Donated goods located on the sales floor of the thrift shops are valued by calculating an average of four months of donated sales using the average of the last twelve months of donated sales.

Adoption center and shelter inventory consists of dog and cat food, medications and animal tags available for sale. The Society counted this inventory on June 30, 2017 and 2016, and valued donated items by estimating their value.

See footnote #9 for additional disclosures related to the thrift shops.

4. PROPERTY AND EQUIPMENT:

The useful lives of property and equipment for purposes of computing depreciation are:

Buildings and improvements	10-40 years
Equipment	3-10 years
Vehicles	5 years

For the year ended June 30, 2017 and 2016, depreciation and amortization charged to expense was \$65,644 and \$71,779, respectively.

5. INVESTMENTS:

The portfolio of investments is carried at their fair market value. For donated investments, cost is determined to be fair market value at the date of gift.

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 Winchester, Virginia

NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2017 and 2016

5. INVESTMENTS: (Continued)

Market values and net unrealized gains and losses pertaining to the investment portfolio are as follows:

	June 30, 2017		
	Cost	Recorded Value (Level 1)	Unrealized Appreciation (Depreciation)
Cash	\$ 33 285	\$ 33 285	\$ -
Corporate bonds	436 775	442 267	5 492
Equities	418 572	485 557	66 985
Fixed income mutual funds	229 811	228 539	(1 272)
Equity mutual funds	84 169	91 255	7 086
	<u>\$ 1 202 612</u>	<u>\$ 1 280 903</u>	<u>\$ 78 291</u>
	June 30, 2016		
	Cost	Recorded Value (Level 1)	Unrealized Appreciation (Depreciation)
Cash	\$ 43 195	\$ 43 195	\$ -
Corporate bonds	334 395	351 111	16 716
Equities	360 985	380 768	19 783
Equity mutual funds	130 607	113 863	(16 744)
	<u>\$ 869 182</u>	<u>\$ 888 937</u>	<u>\$ 19 755</u>

Investment return consists of the following:

	June 30,	
	2017	2016
Interest	\$ 15 487	\$ 16 878
Dividends	4 475	5 307
Realized gains (losses)	(4 596)	(24 980)
Unrealized gains (losses)	58 280	(47 469)
Investment fees	(8 870)	(11 014)
	<u>\$ 64 776</u>	<u>\$ (61 278)</u>

THE SOCIETY FOR THE PREVENTION OF
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 Winchester, Virginia

NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2017 and 2016

6. NOTES PAYABLE:

The Society's notes payable consist of the following:

	June 30,	
	<u>2017</u>	<u>2016</u>
Note payable to First Bank, interest at 3.99%, 180 monthly principal and interest payments of \$7,123.98, maturing December 2028, collateralized by property at 111 Featherbed Lane and 1944 Abrams Creek Drive	\$ 784 989	\$ 837 530
Less: Current maturities on long-term debt	<u>(55 168)</u>	<u>(53 033)</u>
	<u>\$ 729 821</u>	<u>\$ 784 497</u>

The scheduled maturities of long-term debt are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2018	\$ 55 168
2019	57 410
2020	59 743
2021	62 171
2022	64 698
Thereafter	<u>485 799</u>
	<u>\$ 784 989</u>

7. NET ASSETS:

Unrestricted Net Assets

A portion of the unrestricted net assets have been designated by the Board of Directors to be used for specific purposes. Designations are voluntary, board-approved segregations of unrestricted net assets for specific purposes and are used as an aid in planning future expenditures. Information regarding the components of unrestricted net assets at June 30, 2017 and 2016 are as follows:

7. NET ASSETS: (Continued)

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Undesignated net assets:		
Total undesignated assets	\$ 2 457 629	\$ 1 739 805
Board designated net assets:		
Construction Fund	180 160	180 160
Emergency Veterinary Care Fund	<u>4 055</u>	<u>3 000</u>
Total Unrestricted Net Assets	<u>\$ 2 641 844</u>	<u>\$ 1 922 965</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>Construction</u>	<u>Emergency Veterinary Care Fund</u>	<u>ASCPA Grant</u>	<u>Total Temporarily Restricted</u>
Balance, June 30, 2015	\$ 139 491	\$ 6 929	\$ -	\$ 146 420
Contributions	500	-	2 500	3 000
Releases	<u>(11 313)</u>	<u>-</u>	<u>-</u>	<u>(11 313)</u>
Balance, June 30, 2016	128 678	6 929	2 500	138 107
Contributions	-	5	-	5
Releases	<u>(29 671)</u>	<u>-</u>	<u>(2 500)</u>	<u>(32 171)</u>
Balance, June 30, 2017	<u>\$ 99 007</u>	<u>\$ 6 934</u>	<u>\$ -</u>	<u>\$ 105 941</u>

Temporary restrictions related to construction arose from a drive to raise funds to remodel the building purchased in 2013 that is adjacent to the Society's current location. The Society completed the remodel of the building and opened the adoption center in April 2015. There are funds remaining for the construction of the building that the Society plans to use to further upgrade some of the facilities in the new adoption center.

Donations to the Emergency Veterinary Care Fund are exclusively used to treat animals in the shelter who have treatable physical injuries requiring veterinary care. Diagnoses for these animals require treatment that will result in a high probability that the animal will have a good quality of life and high chances for adoption after minimal recovery in foster care. The fund allows the Society to nurse the sick back to health and prepare them for adoption and their new home. The Executive Director and Shelter Director are charged with determining whether an animal meets these criteria.

7. NET ASSETS: (Continued)

The ASCPA Grant was awarded to host a local pet event such as a pet adoption event, collection drives, pet pictures with Santa, and other fun activities.

8. RELATED PARTY TRANSACTIONS:

During the year ended June 30, 2017 and 2016, the Society made payments of \$0 and \$32,909, respectively to Posh Pets Boutique for supplies, which is owned by a member of the Board of Directors.

9. LEASES:

The Society's thrift shop conducts its operations from facilities that are leased under a three-year operating lease that will expire on June 30, 2018. The current monthly rent is \$3,750 per month and will increase to \$4,000 per month, beginning with the September 2017 rental payment.

On June 30, 2014, the Society executed a lease agreement for a second thrift shop location. The three-year operating lease was set to expire on July 1, 2017. The lease also included two 3-year options to extend the lease; however, these options were not exercised by the Society.

The following is a schedule of future minimum rental payments required under the above operating lease as of June 30, 2017:

Year Ended June 30,	Amount
2018	\$ 47 500
	<u>\$ 47 500</u>

10. ADVERTISING COSTS

The Society expenses advertising costs as incurred. Advertising expense totaled \$7,767 and \$4,928 for the years ended June 30, 2017 and 2016, respectively.

11. SUPPLEMENTARY STATEMENT OF CASH FLOWS INFORMATION:

	June 30,	
	2017	2016
Interest paid	<u>\$ 33 035</u>	<u>\$ 32 126</u>
Income taxes	<u>\$ 4 469</u>	<u>\$ 6 000</u>

THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF WINCHESTER,
FREDERICK AND CLARKE COUNTIES, INC.
Winchester, Virginia

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

12. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through the date which the financial statements were available to be issued.