

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

Winchester, Virginia

FINANCIAL REPORT

June 30, 2019

FINANCIAL STATEMENTS

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

Years Ended June 30, 2019 and 2018

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

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June 30, 2019

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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, 2019 and 2018, 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 audits 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.

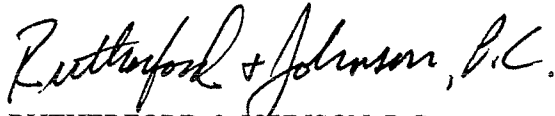
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Society for the Prevention of Cruelty to Animals of Winchester, Frederick and Clarke Counties, Inc. values donated thrift store inventory by using a percentage of monthly average sales, and is carried at \$104,454 and \$121,587 on the statements of financial position as of June 30, 2019 and 2018, respectively. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of thrift store inventory as of June 30, 2019 and 2018, 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, 2019 and 2018, 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

February 24, 2020

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>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash	\$ 25 680	\$ 116 242
Accounts Receivable	200	-
Investments	1 466 768	1 409 098
Inventory	116 396	132 973
Prepaid expenses	<u>10 413</u>	<u>12 592</u>
TOTAL CURRENT ASSETS	<u>1 619 457</u>	<u>1 670 905</u>
PROPERTY AND EQUIPMENT:		
Buildings and Improvements	1 639 550	1 639 550
Land	308 700	308 700
Equipment	277 287	277 287
Vehicles	<u>14 431</u>	<u>14 431</u>
	2 239 968	2 239 968
Less accumulated depreciation	<u>(529 432)</u>	<u>(465 067)</u>
PROPERTY AND EQUIPMENT, NET	<u>1 710 536</u>	<u>1 774 901</u>
OTHER ASSETS:		
Deposits	<u>-</u>	<u>2 100</u>
TOTAL OTHER ASSETS	<u>-</u>	<u>2 100</u>
TOTAL ASSETS	<u><u>\$ 3 329 993</u></u>	<u><u>\$ 3 447 906</u></u>

(See accompanying

EXHIBIT "A"

	June 30,	
	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 25 890	\$ 18 356
Accrued expenses	21 358	24 193
Current portion of long-term debt	<u>59 708</u>	<u>57 393</u>
TOTAL CURRENT LIABILITIES	106 956	99 942
LONG-TERM DEBT, less current portion and loan fees	<u>608 241</u>	<u>666 980</u>
TOTAL LIABILITIES	<u>715 197</u>	<u>766 922</u>
NET ASSETS:		
Without donor restrictions	2 515 789	2 574 407
With donor restrictions	<u>99 007</u>	<u>106 577</u>
TOTAL NET ASSETS	<u>2 614 796</u>	<u>2 680 984</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3 329 993</u>	<u>\$ 3 447 906</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, 2019			Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND SUPPORT:						
Program revenue	\$ 93 201	\$ -	\$ 93 201	\$ 79 249	\$ -	\$ 79 249
City of Winchester revenue	150 000	-	150 000	150 000	-	150 000
Special events	\$ 72 916					
Less direct benefits expense	(23 441)	-	49 475	1 117	-	1 117
Contributions	167 055	-	167 055	222 374	636	223 010
In-kind contributions	122 798	-	122 798	120 119	-	120 119
Membership fees	2 666	-	2 666	1 875	-	1 875
Investment income, net	17 149	-	17 149	17 516	-	17 516
Realized and unrealized gains on investments	139 055	-	139 055	110 850	-	110 850
Total before Thrift Store Activity	741 399	-	741 399	703 100	636	703 736
Thrift Store - sales	313 999	-	313 999	364 761	-	364 761
Thrift Store - in-kind contributions	296 228	-	296 228	362 280	-	362 280
Thrift Store - direct benefit costs and expenses	(590 973)	-	(590 973)	(645 593)	-	(645 593)
Thrift Store - Total	19 254	-	19 254	81 448	-	81 448
Net assets released from restrictions:						
Restrictions satisfied by payments	7 570	(7 570)	-	-	-	-
TOTAL REVENUES, GAINS AND SUPPORT	768 223	(7 570)	760 653	784 548	636	785 184
EXPENSES AND LOSSES:						
Program services	682 582	-	682 582	655 385	-	655 385
Supporting services:						
Management and general	105 368	-	105 368	180 364	-	180 364
Fundraising	38 891	-	38 891	16 236	-	16 236
TOTAL EXPENSES AND LOSSES	826 841	-	826 841	851 985	-	851 985
CHANGE IN NET ASSETS	(58 618)	(7 570)	(66 188)	(67 437)	636	(66 801)
NET ASSETS AT BEGINNING OF YEAR	2 574 407	106 577	2 680 984	2 641 844	105 941	2 747 785
NET ASSETS AT END OF YEAR	\$ 2 515 789	\$ 99 007	\$ 2 614 796	\$ 2 574 407	\$ 106 577	\$ 2 680 984

(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, 2019

EXPENSES:	Support Services			Subtotal	Direct Benefits - Thrift Store	Total
	Program Services	Management and General	Fundraising			
Personnel costs:						
Salaries	\$ 233 179	\$ 43 487	\$ 17 217	\$ 293 883	\$ 155 802	\$ 449 685
Employee benefits	13 608	6 057	-	19 665	29 181	48 846
Payroll taxes	22 798	3 363	1 339	27 500	12 005	39 505
Total Personnel Costs	269 585	52 907	18 556	341 048	196 988	538 036
Other operating expenses:						
Accounting and legal fees	3 006	33 201	-	36 207	-	36 207
Advertising	895	-	-	895	3 907	4 802
Bank fees	398	5 974	-	6 372	6 849	13 221
Community Assistance	33 785	-	-	33 785	-	33 785
Conferences and travel	1 566	238	-	1 804	-	1 804
Cost of items sold	-	-	-	-	313 361	313 361
Depreciation and amortization	50 313	1 846	-	52 159	12 770	64 929
Insurance	18 003	7 106	-	25 109	6 452	31 561
Interest expense	20 736	-	-	20 736	7 764	28 500
Meals and entertainment	471	-	-	471	182	653
Miscellaneous	4 056	-	329	4 385	3 120	7 505
Office expense	8 269	1 069	506	9 844	3 175	13 019
Professional fundraising	-	-	19 500	19 500	-	19 500
Repairs and maintenance	16 420	-	-	16 420	8 864	25 284
Rent	-	-	-	-	2 100	2 100
Shelter expenses	141 297	-	-	141 297	-	141 297
Spay-Neuter expenses	60 223	-	-	60 223	-	60 223
Taxes and licenses	4 071	3 027	-	7 098	2 955	10 053
Telephone	4 831	-	-	4 831	1 785	6 616
Utilities	41 838	-	-	41 838	18 803	60 641
Vehicle expense	2 819	-	-	2 819	1 898	4 717
Total Other Operating Expenses	412 997	52 461	20 335	485 793	393 985	879 778
Less expenses included with revenue	-	-	-	-	(590 973)	(590 973)
TOTAL FUNCTIONAL EXPENSES	\$ 682 582	\$ 105 368	\$ 38 891	\$ 826 841	\$ -	\$ 826 841

(See accompanying Notes to Financial Statements.)

THE SOCIETY FOR THE PREVENTION OF
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FREDERICK AND CLARKE COUNTIES, INC.
Winchester, Virginia

STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

EXHIBIT "C"

Year Ended June 30, 2018

EXPENSES:	Support Services			Subtotal	Direct Benefits - Thrift Store	Total
	Program Services	Management and General	Fundraising			
Personnel costs:						
Salaries	\$ 209 599	\$ 69 270	\$ 14 801	\$ 293 670	\$ 147 499	\$ 441 169
Employee benefits	12 563	6 621	292	19 476	31 920	51 396
Payroll taxes	20 227	5 641	1 076	26 944	11 224	38 168
Total Personnel Costs	242 389	81 532	16 169	340 090	190 643	530 733
Other operating expenses:						
Accounting and legal fees	188	38 557	-	38 745	-	38 745
Advertising	1 340	2 490	-	3 830	2 969	6 799
Bank fees	992	1 841	-	2 833	7 798	10 631
Community Assistance	28 106	-	-	28 106	-	28 106
Conferences and travel	625	22	-	647	-	647
Cost of items sold	-	-	-	-	364 761	364 761
Depreciation and amortization	49 606	14 507	-	64 113	179	64 292
Insurance	17 119	5 213	-	22 332	4 904	27 236
Interest expense	15 660	15 660	-	31 320	-	31 320
Meals and entertainment	834	529	-	1 363	293	1 656
Miscellaneous	5 944	212	-	6 156	1 176	7 332
Office expense	9 613	2 421	67	12 101	2 004	14 105
Repairs and maintenance	32 367	2 007	-	34 374	4 014	38 388
Rent	-	-	-	-	47 500	47 500
Shelter expenses	145 994	-	-	145 994	-	145 994
Spay-Neuter expenses	55 283	-	-	55 283	-	55 283
Taxes and licenses	8 253	9 731	-	17 984	978	18 962
Telephone	5 163	-	-	5 163	2 011	7 174
Utilities	32 214	5 642	-	37 856	13 724	51 580
Vehicle expense	3 695	-	-	3 695	2 639	6 334
Total Other Operating Expenses	412 996	98 832	67	511 895	454 950	966 845
Less expenses included with revenue	-	-	-	-	(645 593)	(645 593)
TOTAL FUNCTIONAL EXPENSES	\$ 655 385	\$ 180 364	\$ 16 236	\$ 851 985	\$ -	\$ 851 985

(See accompanying Notes to Financial Statements.)

THE SOCIETY FOR THE PREVENTION OF
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 Winchester, Virginia

STATEMENTS OF CASH FLOWS

EXHIBIT "D"

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (66 188)	\$ (66 801)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	64 929	64 292
Net realized and unrealized gains on investments	(139 055)	(110 850)
Investment income reinvested	(16 865)	(17 346)
Net (increase) decrease in:		
Accounts receivable	(200)	-
Inventory	16 577	13 984
Prepaid expenses	2 179	2 993
Deposits	2 100	3 166
Net increase (decrease) in:		
Accounts payable	7 534	(8 116)
Accrued expenses	(2 835)	3 489
Income tax payable	-	(2 356)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(131 824)	(117 545)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of buildings, land and equipment	-	(13 938)
Purchases of investments	(383 783)	(310 086)
Proceeds from sales of investments	482 033	310 087
NET CASH FLOWS FROM INVESTING ACTIVITIES	98 250	(13 937)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long term debt	(56 988)	(54 167)
CHANGE IN CASH	(90 562)	(185 649)
CASH AT BEGINNING OF YEAR	116 242	301 891
CASH AT END OF YEAR	\$ 25 680	\$ 116 242

(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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

This balance represents net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a construction reserve fund and emergency veterinary care.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Net Assets With Donor Restrictions

This balance represents net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted gifts in the accompanying financial statements.

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, 2019 and 2018, 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.

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 \$1,000 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 50 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. The 501(c)(3) Code Section enables the Society to accept donations, which qualify as charitable contributions to the donor.

Change in Accounting Principle

During the year ended June 30, 2018, the Society adopted FASB ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*, whereby debt issuance costs are presented as a direct reduction from the carrying amount of the related debt. This change did not have a material effect on the financial statements.

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 Organization implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Reclassifications

Certain amounts in the June 30, 2018 financial statements have been reclassified for comparative purposes to conform to the June 30, 2019 presentation.

2. LIQUIDITY AND AVAILABILITY:

The following reflects the Society's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general use within one year due to contractual or donor-imposed restrictions or internal designations.

	June 30,	
	2019	2018
Cash	\$ 25 680	\$ 116 242
Accounts Receivable	200	-
Investments	1 466 768	1 409 098
Total financial assets	1 492 648	1 525 340
Less: Board designated funds:		
Construction Fund	(180 160)	(180 160)
Emergency Veterinary Care Fund	-	(1 055)
Less: Donor-imposed restrictions:		
Funds subject to specific purpose restrictions	(99 007)	(106 577)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1 213 481</u>	<u>\$ 1 237 548</u>

Any deficit between the financial assets available for general expenditure and the Organization's budgeted expenses for the following year is expected to be satisfied through program revenues, contributions, fees and special event revenues to be received throughout the year.

3. 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. There are no uninsured cash balances as of June 30, 2019 and June 30, 2018.

4. INVENTORY:

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

	June 30,	
	2019	2018
Thrift shop inventory	\$ 104 454	\$ 121 587
Adoption center inventory	10 604	9 516
Shelter inventory	1 338	1 870
	<u>\$ 116 396</u>	<u>\$ 132 973</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 shop 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.

Adoption center and shelter inventory consists of dog and cat food, medications, animal tags, and other items. The Society tracks items donated on a daily basis. A physical inventory was taken at year-end and valued based on the fair market value of the items donated.

See footnote nine for additional disclosures related to the thrift shop.

5. PROPERTY AND EQUIPMENT:

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

Buildings and improvements	10-50 years
Equipment	3-10 years
Vehicles	5 years

For the year ended June 30, 2019 and 2018, depreciation and amortization charged to expense was \$64,929 and \$64,292, respectively.

6. 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.

6. INVESTMENTS (Continued):

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

	June 30, 2019		
	Cost	Recorded Value (Level 1)	Unrealized Appreciation (Depreciation)
Cash	\$ 40 248	\$ 40 248	\$ -
Corporate bonds	479 352	484 034	4 682
Equities	517 812	803 904	286 092
Treasury Obligations	49 863	50 033	170
Equity mutual funds	84 170	88 549	4 379
	<u>\$ 1 171 445</u>	<u>\$ 1 466 768</u>	<u>\$ 295 323</u>

	June 30, 2018		
	Cost	Recorded Value (Level 1)	Unrealized Appreciation (Depreciation)
Cash	\$ 62 897	\$ 62 897	\$ -
Corporate bonds	587 818	571 300	(16 518)
Equities	496 092	679 783	183 691
Equity mutual funds	84 170	95 118	10 948
	<u>\$ 1 230 977</u>	<u>\$ 1 409 098</u>	<u>\$ 178 121</u>

Investment return consists of the following:

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest	\$ 23 252	\$ -	\$ 23 252
Dividends	7 497	-	7 497
Investment fees	(13 600)	-	(13 600)
Investment Earnings	17 149	-	17 149
Net realized and unrealized gains	139 055	-	139 055
Total Investment Return	<u>\$ 156 204</u>	<u>\$ -</u>	<u>\$ 156 204</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, 2019 and 2018

6. INVESTMENTS: (Continued)

	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest	\$ 23 584	\$ -	\$ 23 584
Dividends	7 039	-	7 039
Investment fees	(13 107)	-	(13 107)
Investment Earnings	17 516	-	17 516
Net realized and unrealized gains	110 850	-	110 850
Total Investment Return	<u>\$ 128 366</u>	<u>\$ -</u>	<u>\$ 128 366</u>

7. NOTES PAYABLE:

The Society's notes payable consist of the following:

	June 30,	
	2019	2018
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	\$ 673 268	\$ 730 256
Less: Loan fees, net of accumulated amortization of \$3,152 and \$2,588	<u>(5 319)</u>	<u>(5 883)</u>
Note payable, less unamortized loan fees	667 949	724 373
Less: Current maturities on long-term debt	<u>(59 708)</u>	<u>(57 393)</u>
Total long-term debt, less current portion	<u>\$ 608 241</u>	<u>\$ 666 980</u>

7. NOTES PAYABLE: (Continued)

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

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2020	\$ 59 708
2021	62 134
2022	64 660
2023	67 288
2024	70 021
Thereafter	<u>349 457</u>
	<u>\$ 673 268</u>

8. NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS:

Net Assets Without Donor Restrictions

A portion of the Net Assets Without Donor Restrictions has 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 net assets without donor restrictions is as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Undesignated net assets:		
Total undesignated assets	\$ 2 335 629	\$ 2 393 192
Board designated net assets:		
Construction Fund	180 160	180 160
Emergency Veterinary Care Fund	<u>-</u>	<u>1 055</u>
Total Net Assets Without Donor Restrictions	<u>\$ 2 515 789</u>	<u>\$ 2 574 407</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

8. NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS: (Continued)

	June 30,	
	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Construction Fund	\$ 99 007	\$ 99 007
Suzie Fund	<u>-</u>	<u>7 570</u>
 Total Net Assets With Donor Restrictions	 <u>\$ 99 007</u>	 <u>\$ 106 577</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	June 30,	
	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Suzie Fund	<u>\$ 7 570</u>	<u>\$ -</u>

Donor 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 (Suzie 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.

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.

9. LEASES:

During the year ended June 30, 2018, the Society's thrift shop conducted its operations from facilities that were leased under a three-year operating lease that expired on June 30, 2018. The monthly rent was \$3,750 through August 2017 and increased to \$4,000 per month beginning with the September 2017 rental payment. During the month of June 2018, the Society's thrift shop relocated to a building owned by the Organization. There are no ongoing leases as of June 30, 2018.

10. ADVERTISING COSTS:

The Society expenses advertising costs as incurred. Advertising expense totaled \$4,802 and \$6,799 for the years ended June 30, 2019 and 2018, respectively.

11. SUPPLEMENTARY STATEMENT OF CASH FLOWS INFORMATION:

	June 30,	
	2019	2018
Interest paid	\$ 28 500	\$ 31 320
Income taxes	\$ -	\$ 80

12. SUBSEQUENT EVENTS:

In February 2020, the Society was notified by the City of Winchester that the real estate owned by the Society meets the qualifications for exemption from real estate taxes previously assessed and paid. Preliminary analysis by the City of Winchester has determined a refund in the amount of \$23,423 due to the Society. This refund of previously paid real estate taxes requires the final authorization of City Council which is not expected to occur until March 24, 2020. Accordingly, no amount has been recognized in the financial statements relating to this refund.

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