

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

Winchester, Virginia

FINANCIAL REPORT

June 30, 2018

FINANCIAL STATEMENTS

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

Years Ended June 30, 2018 and 2017

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

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June 30, 2018

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# RUTHERFORD & JOHNSON, P.C.

*Certified Public Accountants & Business Advisors*

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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, 2018 and 2017, 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 \$121,587 and \$124,069 on the statements of financial position as of June 30, 2018 and 2017, respectively. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of thrift store inventory as of June 30, 2018 and 2017, 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, 2018 and 2017, 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

November 27, 2018

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,	
	2018	2017
<b>CURRENT ASSETS:</b>		
Cash	\$ 116 242	\$ 301 891
Investments	1 409 098	1 280 903
Inventory	132 973	146 957
Prepaid expenses	12 592	15 585
	<u>1 670 905</u>	<u>1 745 336</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Buildings and Improvements	1 639 550	1 634 950
Land	308 700	305 500
Equipment	277 287	271 149
Vehicles	14 431	14 431
	<u>2 239 968</u>	<u>2 226 030</u>
Less accumulated depreciation	(465 067)	(400 773)
	<u>1 774 901</u>	<u>1 825 257</u>
<b>OTHER ASSETS:</b>		
Deposits	2 100	5 266
	<u>2 100</u>	<u>5 266</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3 447 906</u></u>	<u><u>\$ 3 575 859</u></u>

(See accompanying

## EXHIBIT "A"

	June 30,	
	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 18 356	\$ 26 472
Accrued expenses	24 193	20 704
Income tax payable	-	2 356
Current portion of long-term debt	<u>57 393</u>	<u>55 168</u>
<b>TOTAL CURRENT LIABILITIES</b>	99 942	104 700
<b>LONG-TERM DEBT, less current portion and loan fees</b>	<u>666 980</u>	<u>723 374</u>
<b>TOTAL LIABILITIES</b>	<u>766 922</u>	<u>828 074</u>
<b>NET ASSETS:</b>		
Unrestricted - board designated	181 215	184 215
Unrestricted - undesignated	2 393 192	2 457 629
Temporarily restricted	<u>106 577</u>	<u>105 941</u>
<b>TOTAL NET ASSETS</b>	<u>2 680 984</u>	<u>2 747 785</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3 447 906</u>	<u>\$ 3 575 859</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, 2018			Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS AND SUPPORT:</b>						
Program revenue	\$ 79 249	\$ -	\$ 79 249	\$ 55 655	\$ -	\$ 55 655
City of Winchester revenue	150 000	-	150 000	120 000	-	120 000
Special events	\$ 12 276					
Less direct benefits expense	<u>(11 159)</u>					
Contributions	222 374	636	223 010	1 007 774	5	1 007 779
In-kind contributions	120 119	-	120 119	61 141	-	61 141
Membership fees	1 875	-	1 875	2 557	-	2 557
Rental income	-	-	-	55 620	-	55 620
Other income	-	-	-	193	-	193
Investment income, net	17 516	-	17 516	11 092	-	11 092
Realized and unrealized gains on investments	110 850	-	110 850	53 684	-	53 684
<b>Total before Thrift Store Activity</b>	<b>703 100</b>	<b>636</b>	<b>703 736</b>	<b>1 384 110</b>	<b>5</b>	<b>1 384 115</b>
Thrift Store - sales	364 761	-	364 761	381 102	-	381 102
Thrift Store - in-kind contributions	362 280	-	362 280	364 443	-	364 443
Thrift Store - direct benefit costs and expenses	<u>(645 593)</u>	<u>-</u>	<u>(645 593)</u>	<u>(660 133)</u>	<u>-</u>	<u>(660 133)</u>
<b>Thrift Store - Total</b>	<b>81 448</b>	<b>-</b>	<b>81 448</b>	<b>85 412</b>	<b>-</b>	<b>85 412</b>
Net assets released from restrictions:						
Restrictions satisfied by payments	-	-	-	32 171	(32 171)	-
<b>TOTAL REVENUES, GAINS AND SUPPORT</b>	<b>784 548</b>	<b>636</b>	<b>785 184</b>	<b>1 501 693</b>	<b>(32 166)</b>	<b>1 469 527</b>
<b>EXPENSES AND LOSSES:</b>						
Program services	655 385	-	655 385	532 939	-	532 939
Supporting services:						
Management and general	180 364	-	180 364	241 111	-	241 111
Fundraising	16 236	-	16 236	8 764	-	8 764
<b>TOTAL EXPENSES AND LOSSES</b>	<b>851 985</b>	<b>-</b>	<b>851 985</b>	<b>782 814</b>	<b>-</b>	<b>782 814</b>
<b>CHANGE IN NET ASSETS</b>	<b>(67 437)</b>	<b>636</b>	<b>(66 801)</b>	<b>718 879</b>	<b>(32 166)</b>	<b>686 713</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>2 641 844</b>	<b>105 941</b>	<b>2 747 785</b>	<b>1 922 965</b>	<b>138 107</b>	<b>2 061 072</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 2 574 407</b>	<b>\$ 106 577</b>	<b>\$ 2 680 984</b>	<b>\$ 2 641 844</b>	<b>\$ 105 941</b>	<b>\$ 2 747 785</b>

(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, 2018

	Support Services			Subtotal	Direct Benefits - Thrift Store	Total
	Program Services	Management and General	Fundraising			
EXPENSES:						
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  
CRUELTY TO ANIMALS OF WINCHESTER,  
FREDERICK AND CLARKE COUNTIES, INC.  
Winchester, Virginia

STATEMENTS OF FUNCTIONAL EXPENSES  
(Continued)

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	50 184	14 036	-	64 220	859	65 079
Insurance	20 113	4 262	-	24 375	6 919	31 294
Interest expense	16 835	16 756	-	33 591	9	33 600
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 CASH FLOWS

EXHIBIT "D"

	Year Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (66 801)	\$ 686 713
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	64 292	65 079
Gain on sale of fixed assets	-	( 145)
Net realized and unrealized gains on investments	110 850	53 684
Investment income reinvested	17 346	11 092
Net (increase) decrease in:		
Inventory	13 984	2 486
Prepaid expenses	2 993	2 118
Deposits	3 166	-
Net increase (decrease) in:		
Accounts payable	(8 116)	(8 043)
Accrued expenses	3 489	(14 957)
Income tax payable	(2 356)	(2 113)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>138 847</b>	<b>795 914</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of buildings, land and equipment	(13 938)	(34 013)
Purchases of investments	( 566 478)	( 807 255)
Proceeds from sale of assets	-	5 900
Proceeds from sales of investments	310 087	350 513
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(270 329)</b>	<b>(484 855)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long term debt	(54 167)	(51 976)
<b>CHANGE IN CASH</b>	<b>(185 649)</b>	<b>259 083</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>301 891</b>	<b>42 808</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 116 242</b>	<b>\$ 301 891</b>

(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, 2018 and 2017, 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.

**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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

**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. 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.

For the year ended June 30, 2017, the Society paid unrelated business income tax on a debt financed property that it rented to another organization. That rental agreement ended during fiscal year 2017 and was the last year such taxes were due. 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. There are no uninsured cash balances as of June 30, 2018. There was an uninsured cash balance of \$51,391 at June 30, 2017.

3. 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,	
	<u>2018</u>	<u>2017</u>
Thrift shop inventory	\$ 121 587	\$ 124 069
Adoption center inventory	9 516	16 549
Shelter inventory	<u>1 870</u>	<u>6 339</u>
	<u>\$ 132 973</u>	<u>\$ 146 957</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. For the year ended June 30, 2017 the Society counted inventory at year-end and valued donated items by estimating the amount contributed. For the year ended June 30, 2018 the Society began tracking 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.

4. 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, 2018 and 2017, depreciation and amortization charged to expense was \$64,858 and \$65,644, 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.



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, 2018 and 2017

5. INVESTMENTS: (Continued)

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

	Cost	June 30, 2018	
		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>

	Cost	June 30, 2017	
		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>

Investment return consists of the following:

	June 30,	
	2018	2017
Interest	\$ 23 584	\$ 15 487
Dividends	7 039	4 475
Realized gains (losses)	11 019	(4 596)
Unrealized gains (losses)	99 831	58 280
Investment fees	(13 107)	(8 870)
	<u>\$ 128 366</u>	<u>\$ 64 776</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, 2018 and 2017

6. NOTES PAYABLE:

The Society's notes payable consist of the following:

	June 30,	
	2018	2017
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	\$ 730 256	\$ 784 989
Less: Loan fees, net of accumulated amortization of \$2,024 and \$1,459	(5 883)	(6 447)
Long-term debt, less unamortized loan fees	\$ 724 373	\$ 778 542
Less: Current maturities on long-term debt	(57 393)	(55 168)
Total long-term debt, less current portion	<u>\$ 666 980</u>	<u>\$ 723 374</u>

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

Year Ended June 30,	Amount
2019	\$ 57 393
2020	59 725
2021	62 152
2022	64 678
2023	67 306
Thereafter	419 002
	<u>\$ 730 256</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, 2018 and 2017 are as follows:

7. NET ASSETS: (Continued)

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Undesignated net assets:		
Total undesignated assets	\$ 2 393 192	\$ 2 457 629
Board designated net assets:		
Construction Fund	180 160	180 160
Emergency Veterinary Care Fund	<u>1 055</u>	<u>4 055</u>
Total Unrestricted Net Assets	<u>\$ 2 574 407</u>	<u>\$ 2 641 844</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

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.

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.

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7. NET ASSETS: (Continued)

	<u>Construction</u>	<u>Emergency Veterinary Care Fund</u>	<u>ASCPA Grant</u>	<u>Total Temporarily Restricted</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	99 007	6 934	-	105 941
Contributions	-	636	-	636
Releases	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2018	<u>\$ 99 007</u>	<u>\$ 7 570</u>	<u>\$ -</u>	<u>\$ 106 577</u>

8. 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.

9. ADVERTISING COSTS

The Society expenses advertising costs as incurred. Advertising expense totaled \$6,799 and \$7,767 for the years ended June 30, 2018 and 2017, respectively.

10. SUPPLEMENTARY STATEMENT OF CASH FLOWS INFORMATION:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest paid	<u>\$ 31 320</u>	<u>\$ 33 035</u>
Income taxes	<u>\$ 80</u>	<u>\$ 4 469</u>

11. SUBSEQUENT EVENTS:

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

12. 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.

13. RECLASSIFICATIONS:

Certain amounts in the June 30, 2017 financial statements have been reclassified for comparative purposes to conform to the June 30, 2018 presentation.