

**BRANDYWINE VALLEY SPCA
(FORMERLY KNOWN AS CHESTER COUNTY SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS)**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

**MINGIS, GUTOWSKI & COMPANY, LLP
Certified Public Accountants
Media, Pennsylvania**

BRANDYWINE VALLEY SPCA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Brandywine Valley SPCA
West Chester, Pennsylvania

We have audited the accompanying financial statements of the Brandywine Valley SPCA (formerly known as Chester County Society for the Prevention of Cruelty to Animals) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, changes in net assets, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brandywine Valley SPCA as of December 31, 2015 and 2014, 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.

Mingis, Gutowski & Company, LLP

Media, Pennsylvania
July 20, 2016

BRANDYWINE VALLEY SPCA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,418,614	\$ 623,689
Short-term investments, other	6,838	12,315
Unconditional support receivable	-	11,000
Other receivables	86,337	27,954
Prepaid expenses	-	13,862
Current portion of contributions receivable from charitable lead annuity trusts	<u>28,349</u>	<u>26,989</u>
TOTAL CURRENT ASSETS	<u>1,540,138</u>	<u>715,809</u>
NONCURRENT ASSETS		
Long-term investments	2,642,282	3,054,906
Property and equipment, net of accumulated depreciation of \$1,057,411 (2015) and \$929,244 (2014)	3,330,133	2,330,707
Contributions receivable from charitable lead annuity trusts, net of current portion	298,181	326,530
Beneficial interest in perpetual trusts	<u>414,340</u>	<u>454,259</u>
TOTAL NONCURRENT ASSETS	<u>6,684,936</u>	<u>6,166,402</u>
TOTAL ASSETS	<u>\$ 8,225,074</u>	<u>\$ 6,882,211</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 461,953	\$ 37,817
Current portion of long-term debt	37,810	20,493
Accrued payroll and payroll taxes	62,794	30,165
Deferred revenue	<u>186,626</u>	<u>74,515</u>
TOTAL CURRENT LIABILITIES	<u>749,183</u>	<u>162,990</u>
LONG-TERM DEBT	<u>1,262,895</u>	<u>853,126</u>
TOTAL LIABILITIES	<u>2,012,078</u>	<u>1,016,116</u>
NET ASSETS		
Unrestricted	5,391,626	4,961,998
Temporarily restricted	357,030	399,838
Permanently restricted	<u>464,340</u>	<u>504,259</u>
TOTAL NET ASSETS	<u>6,212,996</u>	<u>5,866,095</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,225,074</u>	<u>\$ 6,882,211</u>

The accompanying notes are an integral part of these financial statements.

BRANDYWINE VALLEY SPCA

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS		
Revenues, gains and other support:		
Contributions and grant revenue	\$ 462,860	\$ 332,576
Memorial funds and bequests	200,238	242,715
Investment gain (loss)	(79,337)	270,911
Program revenue	2,692,273	935,523
Special events	680,588	362,833
Special event costs	(210,801)	(97,847)
Net assets released from restrictions	<u>59,819</u>	<u>81,740</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>3,805,640</u>	<u>2,128,451</u>
 Expenses:		
Program services, animal welfare	<u>2,816,177</u>	<u>1,938,293</u>
Supporting services:		
Management and general	375,120	225,807
Fund-raising	<u>184,715</u>	<u>100,213</u>
TOTAL SUPPORTING SERVICES	<u>559,835</u>	<u>326,020</u>
TOTAL EXPENSES	<u>3,376,012</u>	<u>2,264,313</u>
 CHANGE IN UNRESTRICTED NET ASSETS	<u>429,628</u>	<u>(135,862)</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	29,444
Change in value of split-interest trust agreements	17,011	18,306
Net assets released from restrictions	<u>(59,819)</u>	<u>(81,740)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(42,808)</u>	<u>(33,990)</u>
 PERMANENTLY RESTRICTED NET ASSETS		
Gain (loss) in perpetual trusts	<u>(39,919)</u>	<u>5,802</u>
 CHANGE IN NET ASSETS	<u>\$ 346,901</u>	<u>\$ (164,050)</u>

The accompanying notes are an integral part of these financial statements.

BRANDYWINE VALLEY SPCA
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
NET ASSETS AT DECEMBER 31, 2013	\$ 5,097,860	\$ 433,828	\$ 498,457	\$ 6,030,145
Change in net assets	<u>(135,862)</u>	<u>(33,990)</u>	<u>5,802</u>	<u>(164,050)</u>
NET ASSETS AT DECEMBER 31, 2014	4,961,998	399,838	504,259	5,866,095
Change in net assets	<u>429,628</u>	<u>(42,808)</u>	<u>(39,919)</u>	<u>346,901</u>
NET ASSETS AT DECEMBER 31, 2015	<u>\$ 5,391,626</u>	<u>\$ 357,030</u>	<u>\$ 464,340</u>	<u>\$ 6,212,996</u>

The accompanying notes are an integral part of these financial statements.

BRANDYWINE VALLEY SPCA
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Program Services Animal Welfare	Supporting Services Management and General	Fund-Raising	Totals	Program Services Animal Welfare	Supporting Services Management and General	Fund-Raising	Totals
FUNCTIONAL EXPENSES								
Payroll	\$1,217,935	\$ 109,175	\$ 140,622	\$1,467,732	\$ 935,281	\$ 53,880	\$ -	\$ 989,161
Advertising and promotion	5,900	-	7,905	13,805	11,309	-	11,310	22,619
Ambulance and transportation expenses	134,197	-	-	134,197	24,596	-	-	24,596
Animal food	13,546	-	-	13,546	12,954	-	-	12,954
Animal supplies and cremation expense	10,140	-	-	10,140	125,950	-	-	125,950
Appeal expenses	-	-	-	-	-	-	52,372	52,372
Cruelty investigations and animal control	-	-	-	-	8,931	-	-	8,931
Depreciation	125,669	2,498	-	128,167	81,944	1,629	-	83,573
Development	-	-	-	-	-	-	36,531	36,531
Employee benefits	70,978	12,993	4,079	88,050	46,985	2,707	-	49,692
Insurance	-	56,821	-	56,821	42,795	4,083	-	46,878
Interest expense	41,208	-	-	41,208	39,900	-	-	39,900
Investment fees	-	13,920	-	13,920	16,023	16,023	-	32,046
Legal and accounting	-	74,488	-	74,488	19,889	59,670	-	79,559
Maintenance and repairs	356,482	5,583	1,316	363,381	90,573	-	-	90,573
Office administrative costs, uniforms, and supplies expense	114,030	38,062	12,516	164,608	114,818	43,718	-	158,536
Payroll taxes	116,219	9,486	6,849	132,554	79,330	4,570	-	83,900
Postage	4,696	1,860	4,315	10,871	7,408	804	-	8,212
Real estate taxes	4,360	-	-	4,360	4,202	-	-	4,202
Subcontractor expenses	52,280	37,321	-	89,601	5,427	30,756	-	36,183
Training and conference	18,790	1,269	290	20,349	1,368	-	-	1,368
Utilities and telephone	82,418	11,644	6,823	100,885	82,644	7,967	-	90,611
Veterinarian and medical supplies	447,329	-	-	447,329	185,966	-	-	185,966
TOTAL FUNCTIONAL EXPENSES	\$2,816,177	\$ 325,120	\$ 184,215	\$3,325,512	\$1,928,293	\$ 225,807	\$ 100,213	\$2,254,313

The accompanying notes are an integral part of these financial statements.

BRANDYWINE VALLEY SPCA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 346,901	\$ (164,050)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Investment fees	13,920	32,046
Dividends reinvested in long-term investments	(1,897)	(105,474)
Depreciation	128,167	83,573
Realized gains on long-term investments	(44,907)	(94,188)
Unrealized gains (losses) on long-term investments	178,149	(71,249)
(Gain) loss in perpetual trusts	39,919	(5,802)
Changes in:		
Unconditional support receivable	11,000	32,000
Other receivables	58,383	23,157
Prepaid expenses	13,862	(2,848)
Contributions receivable from charitable lead annuity trusts	26,989	25,694
Accounts payable and accrued expenses	424,136	14,636
Accrued payroll and payroll taxes	32,629	7,276
Deferred revenue	<u>112,111</u>	<u>(22,063)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,339,362</u>	<u>(247,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	1,127,593	(67,709)
Purchase of investments	(2,099,116)	(1,598,616)
Proceeds from investments	<u>-</u>	<u>1,566,325</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(971,523)</u>	<u>(100,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(25,270)	(12,181)
Loan proceeds	<u>452,356</u>	<u>-</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>427,086</u>	<u>(12,181)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>794,925</u>	<u>(359,473)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>623,689</u>	<u>983,162</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,418,614</u>	<u>\$ 623,689</u>

The accompanying notes are an integral part of these financial statements.

BRANDYWINE VALLEY SPCA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 41,208	\$ 39,900
Noncash investing and financing activities:		
Reinvestment of dividends	\$ 1,897	\$ 105,747
Investment fees paid using proceeds from the sale of investments	\$ 13,920	\$ 32,046
Reinvestment of proceeds from the sale of investments	\$ -	\$ 1,566,325

The accompanying notes are an integral part of these financial statements.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Name Change

On January 22, 2016, the Chester County Society for the Prevention of Cruelty to Animals (the “Organization”) filed a Certificate of Amendment with the Pennsylvania Department of State’s Bureau of Corporations and Charitable Organizations to legally change its name to the Brandywine Valley SPCA. The change became legally effective on January 22, 2016, from which date forward, the Organization is to be known as the Brandywine Valley SPCA. These 2015 financial statements reflect this name change. No change in the corporate structure, management, or governance was made as a result of this name change.

Organization

The primary mission of the Brandywine Valley SPCA (the “Organization”) is to put the “human” back in animal treatment and advocate on their behalf. Included in this mission is for the Organization to promote the welfare and humane treatment of animals; to prevent cruelty to animals by providing shelter for unwanted or stray animals; and to provide shelter, protection and adoption services for animals to the public communities in Chester and Delaware Counties, Pennsylvania, as well as in the State of Delaware. The Organization’s vision is to be the recognized leader in animal welfare that empowers communities to treat life with respect and dignity. In January 2016, the Organization’s name (formerly the Chester County Society for the Prevention of Cruelty to Animals) was changed to the Brandywine Valley SPCA to include the expansion of the Organization’s services which now include the Delaware area, which includes the City of Wilmington, Delaware and various counties in the State of Delaware.

The Organization’s revenues are primarily from animal protection and control services, adoption revenue, contributions, program fees, and fund-raising events. A significant amount of revenues, gains and other support received by the Organization is from the residents and businesses of Chester County, Delaware County, and from counties within the State of Delaware. The Organization also receives funding through fees for services provided to municipal governments in Chester County and in Delaware County.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses when incurred.

BRANDYWINE VALLEY SPCA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, donors currently qualify for the maximum charitable deduction allowed by the Internal Revenue Code.

Financial Statement Presentation

The Organization prepares its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets – Unrestricted net assets consist of contributions that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Temporarily restricted net assets are restricted to contributions subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets – Permanently restricted net assets consist of contributions subject to donor-imposed stipulations that the contribution be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Absent donor stipulations, the Organization records these gifts as unrestricted support. Long-lived assets are reported as permanently restricted only if the Organization must maintain the assets in perpetuity or if the donor explicitly restricts the proceeds from any future disposition of the assets to reinvestment in long-lived assets.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Capitalization and Depreciation

Property and equipment are stated at cost. Major improvements are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Depreciation is computed under the straight-line method over estimated useful lives of 40 years for the building and 5 to 12 years for building improvements and equipment. Donated property and equipment are recorded as fixed assets and reflected as contributions at their estimated values as of the date of receipt. Such contributions are reported as unrestricted support unless the donor has restricted the contributed asset to a specific purpose, in which case, the contributed asset is reported as temporarily restricted support. The Organization reclassifies temporarily restricted net assets to unrestricted net assets with the expiration of the donor restriction.

Contributions

The Organization reports revenue in accordance with FASB ASC 958-605, *Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Nine estates accounted for approximately 5% of the Organization's support for the year ended December 31, 2015, and eleven estates accounted for approximately 11% of the Organization's support for the year ended December 31, 2014.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give are recognized as revenues in the period received. Promises to give are recorded at net realizable value if expected to be collected in one year and at the present value of the estimated future cash flows if expected to be collected in more than one year. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

A significant portion of the Organization's uncollateralized, unconditional support receivable is from donors located in Chester County, Pennsylvania.

Cash and Cash Equivalents

The Organization considers liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of funds in the Organization's checking, savings, money market accounts and certificates of deposit with original maturities of 90 days or less. Cash balances are insured by the Federal Deposit Insurance Corporation. As of December 31, 2015 and 2014, the uninsured portion of this balance was \$1,067,088 and \$53,424, respectively. The Organization has not experienced any loss in such accounts. Management believes the Organization is not exposed to any significant credit risk on its cash balances.

Investments

The Organization adopted FASB ASC 958-320, *Investments—Debt and Equity Securities*. Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Certificates of deposit held for investment that are not debt securities are included in "investments, other." Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "short-term investments, other." Certificates of deposit with remaining maturities greater than one year are classified as "long-term investments."

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

The Organization receives donated services related to its operations and special events. Donated services received in 2014 for building improvements to the Medical Clinic in the amount of \$15,000 were recognized in the financial statements as a capital improvement to the Organization's medical clinic. There were no donated services in 2015.

Deferred Revenue

Deferred income consists of grant revenue and revenue from animal control contracts that were received and unearned at December 31, 2015.

Pension Plan

The Organization has a 403(b) pension plan covering all full-time employees who have attained the age of 21 and have completed one full year of eligible service. The plan is funded by voluntary employee contributions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results could differ from those estimates.

Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statements of activities. Accordingly, the expenses directly related to the program are allocated with certain common costs of the Organization based primarily on time spent and other estimates made by management.

BRANDYWINE VALLEY SPCA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2015 and 2014, were \$13,805 and \$22,619, respectively.

Date of Management's Review

Management has evaluated subsequent events through July 20, 2016, the date which the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2015</u>	<u>2014</u>
Land	\$ 183,139	\$ 183,139
Buildings	3,312,313	2,752,737
Furniture and equipment	447,996	183,709
Vehicles	270,606	140,366
Leasehold improvements	<u>173,490</u>	<u>-</u>
	4,387,544	3,259,951
Accumulated depreciation	<u>(1,057,411)</u>	<u>(929,244)</u>
	<u>\$ 3,330,133</u>	<u>\$ 2,330,707</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 3 INVESTMENTS

Investments are stated at fair market value and are comprised of the following:

	2015			2014		
	Cost	Fair Market Value	Unrealized Gains (Losses)	Cost	Fair Market Value	Unrealized Gains (Losses)
Certificates of deposit	\$ 6,838	\$ 6,838	\$ -	\$ 12,315	\$ 12,315	\$ -
Common/preferred stocks	1,299,109	1,217,076	(82,033)	1,258,847	1,375,466	116,619
Government securities	-	-	-	92,622	119,465	26,843
Corporate bonds	-	-	-	22,996	22,653	(343)
Exchange traded products	-	-	-	179,199	181,370	2,171
Mutual funds	1,449,766	1,358,171	(91,595)	1,260,777	1,282,070	21,293
Beneficial interest in assets held by the Community Foundation	<u>71,556</u>	<u>67,035</u>	<u>(4,521)</u>	<u>69,108</u>	<u>73,882</u>	<u>4,774</u>
	<u>\$ 2,827,269</u>	<u>\$ 2,649,120</u>	<u>\$ (178,149)</u>	<u>\$ 2,895,864</u>	<u>\$ 3,067,221</u>	<u>\$ (171,357)</u>

Investment return is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 53,905	\$ 105,474
Net realized and unrealized gains (losses)	<u>(133,242)</u>	<u>165,437</u>
	<u>\$ (79,337)</u>	<u>\$ 270,911</u>

Beneficial interest in assets held by the Chester County Community Foundation (the "Foundation") are funds disbursed by the Organization to be held and invested by the Foundation on behalf of the Organization.

In addition, the Organization is a beneficiary of certain contributions received directly by the Foundation. Variance power authorizing the Foundation to determine the frequency and amount of distributions to the Organization is to remain vested in the Board of the Foundation unless investment results fail to achieve certain criteria for three consecutive years. Normal distributions are estimated to be up to 5% of the average year-end value of the fund. At December 31, 2015 and 2014, the Foundation held funds totaling \$45,403 and \$50,040, respectively, at fair market value in such accounts.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4 FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a valuation hierarchy for disclosure of the inputs to the valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices to similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. *Level 3* inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The assets carried at fair value measured on a recurring basis are summarized as follows:

	2015		2014	
	Level 1	Level 3	Level 1	Level 3
Common/preferred stocks	\$ 1,375,500	\$ -	\$ 1,375,466	\$ -
Certificates of deposit	-	-	-	-
Government securities	-	-	119,465	-
Corporate bonds	-	-	22,653	-
Exchange traded products	-	-	181,370	-
Mutual funds	1,199,747	-	1,282,070	-
Beneficial interest in assets held by the Community Foundation	-	67,035	-	73,882
Beneficial interest in perpetual trusts	414,340	-	454,259	-
Contributions receivable from charitable lead annuity trusts	-	326,530	-	353,519
	\$ 2,989,587	\$ 393,565	\$ 3,435,283	\$ 427,401

Investments in common/preferred stocks, government securities, corporate bonds and mutual funds have quoted prices for identical assets in active markets; therefore, the investments are measured at fair value using these readily available Level 1 inputs.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The beneficial interest in assets held by the Community Foundation and the beneficial interest in perpetual trusts were measured at fair value using net asset value based on the percentage of interest of the underlying assets. These assets were held by third parties and, accordingly, classified as Level 3 inputs.

The contributions receivable from charitable lead annuity trusts were derived using a discounted cash flow model with inputs derived from unobservable market data. The contributions receivable from charitable lead annuity trusts are included at their carrying values in the statements of financial position, which approximated their fair values at December 31, 2015 and 2014.

Changes in the fair value of the Organization's Level 3 assets are summarized as follows:

**BENEFICIAL INTEREST IN ASSETS
HELD BY THE COMMUNITY FOUNDATION**

Balance, January 1, 2014	\$ 77,496
Realized gains	3,808
Unrealized losses	(2,134)
Grant expenditure	(4,044)
Fees	<u>(1,244)</u>
Balance, December 31, 2014	73,882
Realized gains	4,692
Unrealized losses	(6,663)
Grant expenditure	(3,761)
Fees	<u>(1,115)</u>

BALANCE, DECEMBER 31, 2015 \$ 67,035

BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Balance, January 1, 2014	\$ 448,457
Gain in perpetual trusts	<u>5,802</u>
Balance, December 31, 2014	454,259
Loss in perpetual trusts	<u>(39,919)</u>

BALANCE, DECEMBER 31, 2015 \$ 414,340

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

**CONTRIBUTIONS RECEIVABLE FROM
CHARITABLE LEAD ANNUITY TRUSTS**

Balance, January 1, 2014	\$ 379,213
Distribution paid to the Organization	(44,000)
Change in value of split-interest trust agreements	<u>18,306</u>
Balance, December 31, 2014	353,519
Distribution paid to the Organization	(44,000)
Change in value of split-interest trust agreements	<u>17,011</u>
 BALANCE, DECEMBER 31, 2015	 <u>\$ 326,530</u>

NOTE 5 CONTRIBUTIONS RECEIVABLE

Contributions receivable from charitable lead annuity trusts consist of the following:

	<u>2015</u>	<u>2014</u>
Beacham Charitable Lead Annuity Trust II discounted at 4.94%, annuity of \$22,000 paid quarterly for 20 years until December 31, 2022	\$ 128,543	\$ 143,721
Beacham Charitable Lead Annuity Trust III discounted at 4.94%, annuity of \$22,000 paid quarterly for 25 years until December 31, 2027	<u>197,987</u>	<u>209,798</u>
	<u>\$ 326,530</u>	<u>\$ 353,519</u>

A charitable lead annuity trust (CLAT) is an arrangement in which the donor establishes and funds a trust with a fixed dollar amount, and distributions are paid to a designated not-for-profit organization over a specified period. The Organization recognizes its beneficial interest in those assets as temporarily restricted contribution revenue and as a contribution receivable measured at the present value of the expected future cash inflows.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 5 CONTRIBUTIONS RECEIVABLE (CONTINUED)

Expected future cash flows for each of the next five years and in the aggregate are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 44,000
2017	44,000
2018	44,000
2019	44,000
2020	44,000
Thereafter	<u>185,250</u>
	405,250
Amount of unamortized discount	<u>(78,720)</u>
PRESENT VALUE OF EXPECTED FUTURE CASH FLOWS	<u>\$ 326,530</u>

For the years ended December 31, 2015 and 2014, the amortized discount recorded in the statements of activities in the temporarily restricted net asset class as a change in the value of split-interest agreements was \$17,011 and \$18,306, respectively.

NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization is the beneficiary of two perpetual trusts. Under the terms of the split-interest agreements, the Organization is to receive investment income on the trusts' assets for its unrestricted use in perpetuity. As the Organization is to receive the investment income in perpetuity, the fair market value of the investments, based on the Organization's proportionate interest as an income beneficiary, is used to record the present value of future benefits expected to be received by the Organization.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUSTS (CONTINUED)

The beneficial interest in perpetual trusts reported on the statements of financial position consists of the following:

	<u>2015</u>	<u>2014</u>
Fanny T. Cochran Trust	\$ 189,183	\$ 208,973
Leonard Hastings Schoff Trust	<u>225,157</u>	<u>245,286</u>
	<u>\$ 414,340</u>	<u>\$ 454,259</u>

The trusts' assets are primarily invested in cash and cash equivalents and common stocks at December 31, 2015 and 2014.

NOTE 7 COMMERCIAL TERM LOANS

In December 2014, the Organization refinanced its commercial term loans to fund the expansion and renovation of the existing commercial property located in West Chester, Pennsylvania. The terms of the two loans are as follows:

- 1st loan - \$473,619, seven-year term with monthly payments of \$2,548.60, including interest at 4.125%, with a balloon payment due on December 1, 2021.
- 2nd loan - \$400,000, seven-year term with monthly payments of \$2,152.45, including interest at 4.125%, with a balloon payment due on December 1, 2021.

As of December 31, 2015, the combined outstanding loan balance was \$853,558. Total interest paid for the year ended December 31, 2015 was \$36,351. There was no interest capitalized during the years ended December 31, 2015 and 2014.

In September 2015, the Organization purchased a commercial building for the purpose of establishing an animal medical clinic in Malvern, Pennsylvania. The Organization financed the purchase with a ten-year term loan in the amount of \$416,000, expiring in September 2025, at a fixed rate of 4.125%, with monthly payments of \$2,238, including interest, and a balloon payment due on September 1, 2025. At December 31, 2015, the outstanding balance was \$413,566. Total interest paid for the year ended December 31, 2015 was \$4,282. There was no interest capitalized in 2015.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 7 COMMERCIAL TERM LOANS (CONTINUED)

In July 2015, the Organization purchased a vehicle and financed the purchase with a \$36,356 five-year term loan, at a fixed rate of 4%, with level monthly payments of \$670, including interest, expiring in July 2020. At December 31, 2015, the outstanding balance was \$33,581. Total interest paid for the year ended December 31, 2015 was \$575.

Expected future minimum payments of combined long-term debt for these four loans are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2017	\$ 39,512
2018	41,181
2019	42,920
2020	41,268
2021	749,436
Thereafter	<u>348,578</u>
	<u>\$ 1,262,895</u>

NOTE 8 LEASE COMMITMENT

In November 2015, the Organization entered into a building lease agreement for a medical clinic in New Castle, Delaware (see Note 1). Future minimum annual rentals under the non-cancellable lease agreement are as follows:

<u>Years Ending</u>	
2016	\$ 59,750
2017	70,231
2018	71,613
2019	<u>11,974</u>
	<u>\$ 213,568</u>

Operating lease rental expense for this building for the year ended December 31, 2015 was \$0.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 9 NET ASSETS

Net assets consist of the following:

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS	\$ <u>5,391,626</u>	\$ <u>4,961,998</u>
TEMPORARILY RESTRICTED NET ASSETS		
Beacham Charitable Lead Trusts	326,530	353,519
Veterinary equipment	7,500	7,500
Cruelty award	4,375	4,375
Henry's Cupboard food pantry	6,250	6,250
Hope's medical expenses	7,375	7,375
Unconditional support bequest receivables	-	15,819
Pennsylvania grant	<u>5,000</u>	<u>5,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>357,030</u>	<u>399,838</u>
PERMANENTLY RESTRICTED NET ASSETS		
Fanny T. Cochran Trust	189,183	208,973
Leonard Hastings Schoff Trust	225,157	245,286
Suzanne L. Williamson Endowment	<u>50,000</u>	<u>50,000</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>464,340</u>	<u>504,259</u>
	\$ <u>6,212,996</u>	\$ <u>5,866,095</u>

Net assets are released from donor restrictions by passage of time, by incurring expenses that satisfy the restricted purpose, or by occurrence of other events specified by donors. Details on the net assets released from restrictions are as follows:

	<u>2015</u>	<u>2014</u>
Beacham Charitable Lead Trust for operation of shelter	\$ 44,000	\$ 44,000
Unconditional support bequest receivables	<u>15,819</u>	<u>37,740</u>
	\$ <u>59,819</u>	\$ <u>81,740</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 10 CONTINGENCY

In July 2015, a federal lawsuit was filed against the Organization, along with a number of other state and county defendants, for alleged civil rights violations, tortious interference with contractual relations, and defamation. In January 2016, the federal court dismissed this federal court complaint with prejudice. In May 2016, the plaintiff filed an action before the Delaware County Court of Common Pleas against the Organization and its Executive Director. The Organization filed a motion to dismiss this complaint in early June 2016, and believes this complaint to be lacking in merit as the prior federal court complaint, and intends to contest the matter vigorously.

In mid-June 2016, the Organization and its insurance carriers made a settlement proposal of \$20,000 to the plaintiff's counsel to settle and end the case as a counter to the plaintiff's counsel settlement demand of \$100,000. This settlement proposal was rejected by the plaintiff's counsel on June 28, 2016. It is the intent of the Organization and its insurance carriers to vigorously contest the litigation. While no discovery has yet occurred in this case, the likelihood of an adverse outcome is presently believed to be low, and the amount of any adverse decision is also believed to be low, at an amount significantly less than the plaintiff's settlement demand of \$100,000.