

BRANDYWINE VALLEY SPCA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016 AND 2015

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

BRANDYWINE VALLEY SPCA

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Changes in Net Assets	5
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	9

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 (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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 28, 2017

BRANDYWINE VALLEY SPCA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 618,023	\$ 1,418,614
Short-term investments, other	6,838	6,838
Unconditional support receivable	11,000	-
Other receivables	73,382	86,337
Prepaid expenses	47,233	-
Current portion of contributions receivable from charitable lead annuity trusts	<u>29,779</u>	<u>28,349</u>
TOTAL CURRENT ASSETS	<u>786,255</u>	<u>1,540,138</u>
NONCURRENT ASSETS		
Long-term investments	2,985,034	2,642,282
Property and equipment, net of accumulated depreciation of \$1,082,219 (2016) and \$1,057,411 (2015)	3,317,057	3,330,133
Contributions receivable from charitable lead annuity trusts, net of current portion	268,402	298,181
Beneficial interest in perpetual trusts	437,821	414,340
Security deposit	<u>2,000</u>	<u>-</u>
TOTAL NONCURRENT ASSETS	<u>7,010,314</u>	<u>6,684,936</u>
TOTAL ASSETS	<u>\$ 7,796,569</u>	<u>\$ 8,225,074</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 459,875	\$ 461,953
Current portion of long-term debt	19,026	37,810
Accrued payroll and payroll taxes	106,726	62,794
Deferred revenue	<u>98,696</u>	<u>186,626</u>
TOTAL CURRENT LIABILITIES	<u>684,323</u>	<u>749,183</u>
LONG-TERM DEBT	<u>458,990</u>	<u>1,262,895</u>
TOTAL LIABILITIES	<u>1,143,313</u>	<u>2,012,078</u>
NET ASSETS		
Unrestricted	5,836,753	5,391,626
Temporarily restricted	328,681	357,030
Permanently restricted	<u>487,822</u>	<u>464,340</u>
TOTAL NET ASSETS	<u>6,653,256</u>	<u>6,212,996</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,796,569</u>	<u>\$ 8,225,074</u>

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

BRANDYWINE VALLEY SPCA

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS		
Revenues, gains and other support:		
Contributions and grant revenue	\$ 566,101	\$ 462,860
Memorial funds and bequests	346,399	200,238
Investment gain (loss)	130,543	(79,337)
Program revenue	4,901,262	2,692,273
Special events	730,694	680,588
Special event costs	(467,518)	(210,801)
Loss on disposal of capital assets	(62,257)	-
Net assets released from restrictions	<u>44,000</u>	<u>59,819</u>
TOTAL REVENUES, GAINS	6,189,224	3,805,640
AND OTHER SUPPORT		
 Expenses:		
Program services, animal welfare	<u>4,892,758</u>	<u>2,816,177</u>
Supporting services:		
Management and general	503,486	375,120
Fund-raising	<u>347,853</u>	<u>184,715</u>
TOTAL SUPPORTING SERVICES	851,339	559,835
TOTAL EXPENSES	<u>5,744,097</u>	<u>3,376,012</u>
 CHANGE IN UNRESTRICTED		
NET ASSETS	<u>445,127</u>	<u>429,628</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Change in value of split-interest trust agreements	15,651	17,011
Net assets released from restrictions	<u>(44,000)</u>	<u>(59,819)</u>
CHANGE IN TEMPORARILY		
RESTRICTED NET ASSETS	<u>(28,349)</u>	<u>(42,808)</u>
 PERMANENTLY RESTRICTED NET ASSETS		
Gain (loss) in perpetual trusts	<u>23,482</u>	<u>(39,919)</u>
 CHANGE IN NET ASSETS	<u>\$ 440,260</u>	<u>\$ 346,901</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, 2016 AND 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
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	5,391,626	357,030	464,340	6,212,996
Change in net assets	<u>445,127</u>	<u>(28,349)</u>	<u>23,482</u>	<u>440,260</u>
NET ASSETS AT				
DECEMBER 31, 2016	<u>\$5,836,753</u>	<u>\$ 328,681</u>	<u>\$ 487,822</u>	<u>\$ 6,653,256</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, 2016 AND 2015

	2016				2015			
	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	\$2,175,957	\$ 165,529	\$ 118,667	\$2,460,153	\$1,217,935	\$ 109,175	\$ 140,622	\$1,467,732
Adoption Center rental/Remote Location expense	203,170	-	-	203,170	-	-	-	-
Advertising and promotion	50,192	-	67,248	117,440	5,900	-	7,905	13,805
Ambulance and transportation expenses	179,575	-	-	179,575	134,197	-	-	134,197
Animal food	23,407	-	-	23,407	13,546	-	-	13,546
Animal supplies and cremation expense	13,423	-	-	13,423	10,140	-	-	10,140
Depreciation	315,212	6,266	-	321,478	125,669	2,498	-	128,167
Direct mail expense	-	-	108,655	108,655	-	-	-	-
Emergency vet care	27,867	-	-	27,867	-	-	-	-
Employee benefits	102,892	18,835	5,913	127,640	70,978	12,993	4,079	88,050
Insurance	-	53,154	-	53,154	-	56,821	-	56,821
Interest expense	43,034	-	-	43,034	41,208	-	-	41,208
Investment fees	-	17,856	-	17,856	-	13,920	-	13,920
Lab fees, small medical equipment, and vaccinations	91,138	-	-	91,138	-	-	-	-
Legal and accounting	-	90,603	-	90,603	-	74,488	-	74,488
Maintenance and repairs	412,462	6,460	1,523	420,445	356,482	5,583	1,316	363,381
Merchant service fees and merchandise purchases	62,108	-	-	62,108	-	-	-	-
Office administrative costs, uniforms, and supplies expense	191,475	63,912	21,017	276,404	114,030	38,062	12,516	164,608
Payroll taxes	192,936	14,677	10,522	218,135	116,219	9,486	6,849	132,554
Postage	5,259	2,083	4,833	12,175	4,696	1,860	4,315	10,871
Real estate taxes	6,133	-	-	6,133	4,360	-	-	4,360
Subcontractor expenses	66,144	47,218	-	113,362	52,280	37,321	-	89,601
Training and conference	17,516	1,183	270	18,969	18,790	1,269	290	20,349
Utilities and telephone	111,193	15,710	9,205	136,108	82,418	11,644	6,823	100,885
Veterinarian and medical supplies	601,665	-	-	601,665	447,329	-	-	447,329
TOTAL FUNCTIONAL EXPENSES	\$4,822,758	\$_503,486	\$_347,853	\$5,744,097	\$2,816,127	\$_375,120	\$_184,215	\$3,376,012

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

BRANDYWINE VALLEY SPCA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 440,261	\$ 346,901
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Investment fees	17,856	13,920
Dividends reinvested in long-term investments	(68,290)	(1,897)
Depreciation	321,478	128,167
Realized losses on long-term investments	(59,600)	(44,907)
Unrealized gains on long-term investments	124,363	178,149
(Gain) loss in perpetual trusts	(23,481)	39,919
Loss on disposal of capital assets	62,257	-
Changes in:		
Unconditional support receivable	(11,000)	11,000
Other receivables	12,955	58,383
Prepaid expenses	(47,233)	13,862
Contributions receivable from charitable lead annuity trusts	28,349	26,989
Security deposit	(2,000)	-
Accounts payable and accrued expenses	(2,078)	424,136
Accrued payroll and payroll taxes	43,932	32,629
Deferred revenue	<u>(87,930)</u>	<u>112,111</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>749,839</u>	<u>1,339,362</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(371,659)	1,127,593
Purchase of investments	<u>(357,082)</u>	<u>(2,099,116)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(728,741)</u>	<u>(971,523)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(822,689)	(25,270)
Loan proceeds	-	452,356
Proceeds from disposal of vehicle	<u>1,000</u>	<u>-</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(821,689)</u>	<u>427,086</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(800,591)</u>	<u>794,925</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,418,614</u>	<u>623,689</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 618,023</u>	<u>\$ 1,418,614</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 43,034	\$ 41,208
Noncash investing and financing activities:		
Reinvestment of dividends	\$ 68,290	\$ 1,897
Investment fees paid using proceeds from the sale of investments	\$ 17,856	\$ 13,920

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

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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. The 2016 financial statements reflect this name change. No changes in the corporate structure, management, or governance were made as a result of this name change.

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, 2016 AND 2015

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, 2016 AND 2015

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. Eleven estates accounted for approximately 6% of the Organization's support for the year ended December 31, 2016, and nine estates accounted for approximately 5% of the Organization's support for the year ended December 31, 2015.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, the uninsured portion of this balance was \$284,113 and \$1,067,088, 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, 2016 AND 2015

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

Donated Services

The Organization receives donated services related to its operations and special events. There were no donated services in 2016 and in 2015.

Deferred Revenue

Deferred income consists of grant revenue and revenue from animal control contracts that were received and unearned at December 31, 2016.

Pension Plan

The Organization has a 403(b) pension plan covering all full-time employees who may contribute to their accounts upon employment and who have attained the age of 21. The plan is funded by voluntary employee contributions and employer matching 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, 2016 AND 2015

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

Advertising and Promotion Costs

The Organization expenses advertising and promotion costs as incurred. Advertising and promotion costs for the years ended December 31, 2016 and 2015, were \$117,440 and \$13,805, respectively.

Date of Management's Review

Management has evaluated subsequent events through July 28, 2017, the date which the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2016</u>	<u>2015</u>
Land	\$ 183,139	\$ 183,139
Buildings	3,074,302	3,312,313
Furniture and equipment	422,997	447,996
Vehicles	250,751	270,606
Leasehold improvements	<u>468,087</u>	<u>173,490</u>
	4,399,276	4,387,544
Accumulated depreciation	<u>(1,082,219)</u>	<u>(1,057,411)</u>
	<u>\$ 3,317,057</u>	<u>\$ 3,330,133</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 INVESTMENTS

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

	<u>2016</u>			<u>2015</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains (Losses)</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains (Losses)</u>
Certificates of deposit	\$ 6,838	\$ 6,838	\$ -	\$ 6,838	\$ 6,838	\$ -
Common/preferred stocks	1,365,047	1,424,390	59,343	1,299,109	1,217,076	(82,033)
Government securities	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Exchange traded products	-	-	-	-	-	-
Mutual funds	1,427,219	1,489,272	62,053	1,449,766	1,358,171	(91,595)
Beneficial interest in assets held by the Community Foundation	<u>68,405</u>	<u>71,372</u>	<u>2,967</u>	<u>71,556</u>	<u>67,035</u>	<u>(4,521)</u>
	<u>\$ 2,867,509</u>	<u>\$ 2,991,872</u>	<u>\$ 124,363</u>	<u>\$ 2,827,269</u>	<u>\$ 2,649,120</u>	<u>\$ (178,149)</u>

Investment return is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 65,779	\$ 53,905
Net realized and unrealized gains (losses)	<u>64,764</u>	<u>(133,242)</u>
	<u>\$ 130,543</u>	<u>\$ (79,337)</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, 2016 and 2015, the Foundation held funds totaling \$48,340 and \$45,403, respectively, at fair market value in such accounts.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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:

	2016		2015	
	Level 1	Level 3	Level 1	Level 3
Common/preferred stocks	\$ 1,424,390	\$ -	\$ 1,375,500	\$ -
Certificates of deposit	-	-	-	-
Government securities	-	-	-	-
Corporate bonds	-	-	-	-
Exchange traded products	-	-	-	-
Mutual funds	1,489,272	-	1,199,747	-
Beneficial interest in assets held by the Community Foundation	-	71,372	-	67,035
Beneficial interest in perpetual trusts	437,821	-	414,340	-
Contributions receivable from charitable lead annuity trusts	-	298,181	-	326,530
	<u>\$ 3,351,483</u>	<u>\$ 369,553</u>	<u>\$ 2,989,587</u>	<u>\$ 393,565</u>

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, 2016 AND 2015

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, 2016 and 2015.

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, 2015	\$ 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
Realized gains	1,808
Unrealized gains	3,589
Fees	<u>(1,060)</u>

BALANCE, DECEMBER 31, 2016 \$ 71,372

BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Balance, January 1, 2015	\$ 454,259
Loss in perpetual trusts	<u>(39,919)</u>
Balance, December 31, 2015	414,340
Gain in perpetual trusts	<u>23,481</u>

BALANCE, DECEMBER 31, 2016 \$ 437,821

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

**CONTRIBUTIONS RECEIVABLE FROM
CHARITABLE LEAD ANNUITY TRUSTS**

Balance, January 1, 2015	\$ 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	326,530
Distribution paid to the Organization	(44,000)
Change in value of split-interest trust agreements	<u>15,651</u>
 BALANCE, DECEMBER 31, 2016	 <u>\$ 298,181</u>

NOTE 5 CONTRIBUTIONS RECEIVABLE

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

	<u>2016</u>	<u>2015</u>
Beacham Charitable Lead Annuity Trust II discounted at 4.94%, annuity of \$22,000 paid quarterly for 20 years until December 31, 2022	\$ 112,601	\$ 128,543
Beacham Charitable Lead Annuity Trust III discounted at 4.94%, annuity of \$22,000 paid quarterly for 25 years until December 31, 2027	<u>185,580</u>	<u>197,987</u>
	<u>\$ 298,181</u>	<u>\$ 326,530</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, 2016 AND 2015

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</u> <u>December 31,</u>	
2017	\$ 44,000
2018	44,000
2019	44,000
2020	44,000
2021	44,000
Thereafter	<u>141,250</u>
	361,250
Amount of unamortized discount	<u>(63,069)</u>
 PRESENT VALUE OF EXPECTED FUTURE CASH FLOWS	 <u>\$ 298,181</u>

For the years ended December 31, 2016 and 2015, 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 \$15,651 and \$17,011, 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, 2016 AND 2015

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>2016</u>	<u>2015</u>
Fanny T. Cochran Trust	\$ 207,009	\$ 189,183
Leonard Hastings Schoff Trust	<u>230,812</u>	<u>225,157</u>
	<u>\$ 437,821</u>	<u>\$ 414,340</u>

The trusts' assets are primarily invested in cash and cash equivalents and common stocks at December 31, 2016 and 2015.

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. In October 2016, the Organization satisfied and repaid this loan in its entirety. The balance at December 31, 2016 was \$-0-.

As of December 31, 2016, the outstanding loan balance on the 1st loan was \$451,237. Total interest paid on both loans for the year ended December 31, 2016 was \$33,209. There was no interest capitalized during the years ended December 31, 2016 and 2015.

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. In July 2016, the Organization satisfied and repaid this loan in its entirety. At December 31, 2016, the outstanding balance was \$-0-. Total interest paid for the year ended December 31, 2016 was \$8,489. There was no interest capitalized in 2016.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016, the outstanding balance was \$26,779. Total interest paid for the year ended December 31, 2016 was \$1,240.

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

<u>Year Ending December 31,</u>	
2018	\$ 19,827
2019	20,663
2020	18,112
2021	<u>400,388</u>
	<u>\$ 458,990</u>

NOTE 8 LEASE COMMITMENT

In November 2015, the Organization entered into a building lease agreement for a shelter and veterinary 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>	
2017	\$ 70,231
2018	71,613
2019	<u>11,974</u>
	<u>\$ 153,818</u>

Operating lease rental expense for this building for the year ended December 31, 2016 was \$59,750.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 NET ASSETS

Net assets consist of the following:

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS	\$ <u>5,836,753</u>	\$ <u>5,391,626</u>
TEMPORARILY RESTRICTED NET ASSETS		
Beacham Charitable Lead Trusts	298,181	326,530
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
Pennsylvania grant	<u>5,000</u>	<u>5,000</u>
TOTAL TEMPORARILY		
RESTRICTED NET ASSETS	<u>328,681</u>	<u>357,030</u>
PERMANENTLY RESTRICTED NET ASSETS		
Fanny T. Cochran Trust	207,010	189,183
Leonard Hastings Schoff Trust	230,812	225,157
Suzanne L. Williamson Endowment	<u>50,000</u>	<u>50,000</u>
TOTAL PERMANENTLY		
RESTRICTED NET ASSETS	<u>487,822</u>	<u>464,340</u>
	\$ <u>6,653,256</u>	\$ <u>6,212,996</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>2016</u>	<u>2015</u>
Beacham Charitable Lead Trust for operation of shelter	\$ 44,000	\$ 44,000
Unconditional support bequest receivables	<u>-</u>	<u>15,819</u>
	\$ <u>44,000</u>	\$ <u>59,819</u>

BRANDYWINE VALLEY SPCA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 10 SUBSEQUENT EVENT

In June 2017, the Organization entered into a contractual agreement to purchase an animal shelter located at 22918 DuPont Boulevard, Georgetown, DE. The shelter building was purchased from the Delaware SPCA at a cost of \$300,000. The land is owned by the State of Delaware's Department of Correction, which has agreed to transfer the 1971 100-year lease to the Brandywine Valley SPCA. The annual cost of the lease is \$1. The transfer will result in an upgraded facility and expanded services for Sussex County residents, while providing the BVSPCA an avenue to locally rehome animals coming to the Organization from the lower Delaware area.