

BRANDYWINE VALLEY SPCA
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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 (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mingis, Gutowski & Company, LLP

Media, Pennsylvania
August 8, 2018

BRANDYWINE VALLEY SPCA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 619,198	\$ 618,023
Short-term investments, other	6,839	6,838
Unconditional support receivable	14,606	11,000
Other receivables	88,232	73,382
Prepaid expenses	34,627	47,233
Current portion of contributions receivable from charitable lead annuity trusts	<u>31,280</u>	<u>29,779</u>
TOTAL CURRENT ASSETS	<u>794,782</u>	<u>786,255</u>
NONCURRENT ASSETS		
Long-term investments	3,327,491	2,985,034
Property and equipment, net of accumulated depreciation of \$1,492,035 (2017) and \$1,082,219 (2016)	3,466,751	3,317,057
Contributions receivable from charitable lead annuity trusts, net of current portion	237,122	268,402
Beneficial interest in perpetual trusts	458,388	437,821
Security deposit	-	2,000
TOTAL NONCURRENT ASSETS	<u>7,489,752</u>	<u>7,010,314</u>
TOTAL ASSETS	<u>\$ 8,284,534</u>	<u>\$ 7,796,569</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 616,500	\$ 459,875
Current portion of long-term debt	12,448	19,026
Accrued payroll and payroll taxes	182,932	106,726
Deferred revenue	<u>156,691</u>	<u>98,696</u>
TOTAL CURRENT LIABILITIES	<u>968,571</u>	<u>684,323</u>
LONG-TERM DEBT	<u>324,454</u>	<u>458,990</u>
TOTAL LIABILITIES	<u>1,293,025</u>	<u>1,143,313</u>
NET ASSETS		
Unrestricted	6,208,469	5,836,753
Temporarily restricted	274,652	328,681
Permanently restricted	<u>508,388</u>	<u>487,822</u>
TOTAL NET ASSETS	<u>6,991,509</u>	<u>6,653,256</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,284,534</u>	<u>\$ 7,796,569</u>

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

BRANDYWINE VALLEY SPCA

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Revenues, gains and other support:		
Contributions and grant revenue	\$ 1,240,972	\$ 566,101
Memorial funds and bequests	672,353	346,399
Investment gain	378,353	130,543
Program revenue	4,891,693	4,901,262
Special events	801,278	730,694
Special event costs	(399,202)	(256,295)
Loss on disposal of capital assets	-	(62,257)
Net assets released from restrictions	<u>68,250</u>	<u>44,000</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>7,653,697</u>	<u>6,400,447</u>
Expenses:		
Program services, animal welfare	<u>6,695,113</u>	<u>5,103,981</u>
Supporting services:		
Management and general	342,280	503,486
Fund-raising	<u>244,588</u>	<u>347,853</u>
TOTAL SUPPORTING SERVICES	<u>586,868</u>	<u>851,339</u>
TOTAL EXPENSES	<u>7,281,981</u>	<u>5,955,320</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>371,716</u>	 <u>445,127</u>
TEMPORARILY RESTRICTED NET ASSETS		
Change in value of split-interest trust agreements	14,221	15,651
Net assets released from restrictions	<u>(68,250)</u>	<u>(44,000)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(54,029)</u>	<u>(28,349)</u>
PERMANENTLY RESTRICTED NET ASSETS		
Gain in perpetual trusts	<u>20,566</u>	<u>23,482</u>
 CHANGE IN NET ASSETS	 <u>\$ 338,253</u>	 <u>\$ 440,260</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, 2017 AND 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
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	5,836,753	328,681	487,822	6,653,256
Change in net assets	<u>371,716</u>	<u>(54,029)</u>	<u>20,566</u>	<u>338,253</u>
NET ASSETS AT				
DECEMBER 31, 2017	<u>\$ 6,208,469</u>	<u>\$ 274,652</u>	<u>\$ 508,388</u>	<u>\$ 6,991,509</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, 2017 AND 2016

	2017			2016				
	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	\$2,787,783	\$ 154,131	\$ 122,259	\$3,064,173	\$2,175,957	\$ 165,529	\$ 118,667	\$2,460,153
Adoption Center rental/Remote Location expense	145,507	-	-	145,507	203,170	-	-	203,170
Advertising and promotion	19,246	-	4,129	23,375	50,192	-	67,248	117,440
Ambulance and transportation expenses	240,474	-	-	240,474	179,575	-	-	179,575
Animal food	26,788	-	-	26,788	23,407	-	-	23,407
Animal supplies and cremation expense	28,936	-	-	28,936	13,423	-	-	13,423
Return to Field Program expense	53,118	-	-	53,118	53,929	-	-	53,929
Depreciation	402,484	4,244	3,088	409,816	315,212	6,266	-	321,478
Direct mail expense	-	-	-	-	-	-	108,655	108,655
Emergency vet care	75,326	-	-	75,326	27,867	-	-	27,867
Employee benefits	146,756	22,226	12,650	181,632	102,892	18,835	5,913	127,640
Insurance	74,506	6,833	3,174	84,513	43,034	53,154	-	53,154
Interest expense	16,673	-	-	16,673	-	-	-	-
Investment fees	-	20,203	-	20,203	-	17,856	-	17,856
Lab fees, small medical equipment, and vaccinations	140,827	-	-	140,827	91,138	-	-	91,138
Legal, accounting, and payroll service fees	-	48,935	-	48,935	-	90,603	-	90,603
Maintenance and repairs	547,374	4,543	5,959	557,876	412,462	6,460	1,523	420,445
Mega Adoption expenses	320,653	-	-	320,653	157,294	-	-	157,294
Merchant service fees and merchandise purchases	333,797	5,317	-	339,114	62,108	-	-	62,108
Office administrative costs, uniforms, and supplies expense	246,334	32,314	45,025	323,673	191,475	63,912	21,017	276,404
Payroll taxes	228,572	9,815	12,456	250,843	192,936	14,677	10,522	218,135
Postage	8,141	1,221	5,827	15,189	8,259	2,083	4,833	12,175
Real estate taxes	4,230	-	-	4,230	6,133	-	-	6,133
Subcontractor expenses	106,796	27,684	19,931	154,411	66,144	47,218	-	113,362
Training and conference	57,463	427	3,880	61,770	17,516	1,183	270	18,969
Utilities and telephone	139,553	4,387	6,210	150,150	111,193	15,710	9,205	136,108
Veterinarian and medical supplies	543,776	-	-	543,776	601,665	-	-	601,665
TOTAL FUNCTIONAL EXPENSES	\$6,695,113	\$ 342,280	\$ 244,588	\$7,281,981	\$5,103,981	\$ 503,486	\$ 347,853	\$5,955,320

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

BRANDYWINE VALLEY SPCA
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 338,253	\$ 440,260
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Investment fees	20,203	17,856
Dividends reinvested in long-term investments	(108,963)	(68,290)
Depreciation	409,816	321,478
Realized gains (losses) on long-term investments	132,987	(59,600)
Unrealized gains on long-term investments	136,404	124,363
Gain in perpetual trusts	(20,567)	(23,481)
Loss on disposal of capital assets	-	62,257
Changes in:		
Short-term investments, other	(1)	-
Unconditional support receivable	(3,606)	(11,000)
Other receivables	(14,850)	12,955
Prepaid expenses	12,606	(47,233)
Contributions receivable from charitable lead annuity trusts	29,779	28,349
Security deposit	2,000	(2,000)
Accounts payable and accrued expenses	156,625	(2,078)
Accrued payroll and payroll taxes	76,206	43,933
Deferred revenue	<u>57,995</u>	<u>(87,930)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,224,887</u>	<u>749,839</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(559,510)	(371,659)
Purchase of investments	<u>(523,088)</u>	<u>(357,082)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,082,598)</u>	<u>(728,741)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(141,114)	(822,689)
Proceeds from disposal of vehicle	<u>-</u>	<u>1,000</u>
NET CASH USED FOR FINANCING ACTIVITIES	<u>(141,114)</u>	<u>(821,689)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,175</u>	<u>(800,591)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>618,023</u>	<u>1,418,614</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 619,198</u>	<u>\$ 618,023</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 16,673	\$ 43,034
Noncash investing and financing activities:		
Reinvestment of dividends	\$ 108,963	\$ 68,290
Investment fees paid using proceeds from the sale of investments	\$ 20,203	\$ 17,856

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

BRANDYWINE VALLEY SPCA
NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 AND 2016

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, 2017 AND 2016

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. Thirteen estates accounted for approximately 9% of the Organization's support for the year ended December 31, 2017, and eleven estates accounted for approximately 6% of the Organization's support for the year ended December 31, 2016.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, the uninsured portion of this balance was \$293,581 and \$284,113, 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, 2017 AND 2016

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 2017 and in 2016.

Deferred Revenue

Deferred income consists of grant revenue and revenue from animal control contracts that were received and unearned at December 31, 2017.

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, 2017 AND 2016

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, 2017 and 2016, were \$23,375 and \$117,440, respectively.

Date of Management's Review

Management has evaluated subsequent events through August 8, 2018, the date which the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2017</u>	<u>2016</u>
Land	\$ 183,139	\$ 183,139
Buildings	3,374,302	3,074,302
Furniture and equipment	429,409	422,997
Vehicles	329,101	250,751
Leasehold improvements	<u>642,835</u>	<u>468,087</u>
	4,958,786	4,399,276
Accumulated depreciation	<u>(1,492,035)</u>	<u>(1,082,219)</u>
	<u>\$ 3,466,751</u>	<u>\$ 3,317,057</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 INVESTMENTS

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

	2017			2016		
	Cost	Fair Market Value	Unrealized Gains (Losses)	Cost	Fair Market Value	Unrealized Gains (Losses)
Certificates of deposit	\$ 6,839	\$ 6,839	\$ -	\$ 6,838	\$ 6,838	\$ -
Common/preferred stocks	1,744,392	1,453,415	(290,977)	1,365,047	1,424,390	59,343
Government securities	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Exchange traded products	-	-	-	-	-	-
Mutual funds	1,370,356	1,793,409	423,053	1,427,219	1,489,272	62,053
Beneficial interest in assets held by the Community Foundation	<u>76,339</u>	<u>80,667</u>	<u>4,328</u>	<u>68,405</u>	<u>71,372</u>	<u>2,967</u>
	<u>\$ 3,197,926</u>	<u>\$ 3,334,330</u>	<u>\$ 136,404</u>	<u>\$ 2,867,509</u>	<u>\$ 2,991,872</u>	<u>\$ 124,363</u>

Investment return is summarized as follows:

	2017	2016
Interest and dividend income	\$ 108,962	\$ 65,779
Net realized and unrealized gains (losses)	<u>269,391</u>	<u>64,764</u>
	<u>\$ 378,353</u>	<u>\$ 130,543</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, 2017 and 2016, the Foundation held funds totaling \$54,635 and \$48,340, respectively, at fair market value in such accounts.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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:

	2017		2016	
	<u>Level 1</u>	<u>Level 3</u>	<u>Level 1</u>	<u>Level 3</u>
Common/preferred stocks	\$ 1,453,415	\$ -	\$ 1,424,390	\$ -
Certificates of deposit	-	-	-	-
Government securities	-	-	-	-
Corporate bonds	-	-	-	-
Exchange traded products	-	-	-	-
Mutual funds	1,793,409	-	1,489,272	-
Beneficial interest in assets held by the Community Foundation	-	80,667	-	71,372
Beneficial interest in perpetual trusts	-	458,388	-	437,821
Contributions receivable from charitable lead annuity trusts	-	268,402	-	298,181
	<u>\$ 3,246,824</u>	<u>\$ 807,457</u>	<u>\$ 2,913,662</u>	<u>\$ 807,374</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, 2017 AND 2016

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, 2017 and 2016.

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, 2016	\$ 67,035
Realized gains	1,808
Unrealized gains	3,589
Fees	<u>(1,060)</u>
Balance, December 31, 2016	71,372
Realized gains	1,192
Unrealized gains	4,328
Investment income	4,945
Fees	<u>(1,170)</u>
BALANCE, DECEMBER 31, 2017	<u>\$ 80,667</u>

BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Balance, January 1, 2016	\$ 414,340
Gain in perpetual trusts	<u>23,481</u>
Balance, December 31, 2016	437,821
Gain in perpetual trusts	<u>20,567</u>
BALANCE, DECEMBER 31, 2017	<u>\$ 458,388</u>

BRANDYWINE VALLEY SPCA
NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

**CONTRIBUTIONS RECEIVABLE FROM
CHARITABLE LEAD ANNUITY TRUSTS**

Balance, January 1, 2016	\$ 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	298,181
Distribution paid to the Organization	(44,000)
Change in value of split-interest trust agreements	<u>14,221</u>
BALANCE, DECEMBER 31, 2017	<u>\$ 268,402</u>

NOTE 5 CONTRIBUTIONS RECEIVABLE

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

	<u>2017</u>	<u>2016</u>
Beacham Charitable Lead Annuity Trust II discounted at 4.94%, annuity of \$22,000 paid quarterly for 20 years until December 31, 2022	\$ 99,567	\$ 112,601
Beacham Charitable Lead Annuity Trust III discounted at 4.94%, annuity of \$22,000 paid quarterly for 25 years until December 31, 2027	<u>168,835</u>	<u>185,580</u>
	<u>\$ 268,402</u>	<u>\$ 298,181</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, 2017 AND 2016

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>	
2018	\$ 44,000
2019	44,000
2020	44,000
2021	44,000
2022	44,000
Thereafter	<u>97,250</u>
	317,250
Amount of unamortized discount	<u>(48,848)</u>
PRESENT VALUE OF EXPECTED FUTURE CASH FLOWS	 <u>\$ 268,402</u>

For the years ended December 31, 2017 and 2016, 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 \$14,221 and \$15,651, 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, 2017 AND 2016

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>2017</u>	<u>2016</u>
Fanny T. Cochran Trust	\$ 204,512	\$ 207,009
Leonard Hastings Schoff Trust	<u>253,876</u>	<u>230,812</u>
	<u>\$ 458,388</u>	<u>\$ 437,821</u>

The trusts' assets are primarily invested in cash and cash equivalents and common stocks at December 31, 2017 and 2016.

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, 2017, the outstanding loan balance on the 1st loan was \$336,902. Total interest paid for the year ended December 31, 2017 was \$16,248. There was no interest capitalized during the years ended December 31, 2017 and 2016.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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. This loan was satisfied and repaid by the Organization in its entirety. At December 31, 2017, the outstanding balance was \$-0-. Total interest paid for the year ended December 31, 2017 was \$494.

Expected future minimum payments of long-term debt for the remaining outstanding loan are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2019	\$ 12,979
2020	13,483
2021	<u>297,992</u>
	<u>\$ 324,454</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>	
2018	\$ 90,453
2019	<u>15,114</u>
	<u>\$ 105,567</u>

Operating lease rental expense for this building for the year ended December 31, 2017 was \$89,071.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 9 NET ASSETS

Net assets consist of the following:

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS	\$ <u>6,208,469</u>	\$ <u>5,836,753</u>
TEMPORARILY RESTRICTED NET ASSETS		
Beacham Charitable Lead Trusts	268,402	298,181
Veterinary equipment	-	7,500
Cruelty award	-	4,375
Henry's Cupboard food pantry	6,250	6,250
Hope's medical expenses	-	7,375
Pennsylvania grant	-	<u>5,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>274,652</u>	<u>328,681</u>
PERMANENTLY RESTRICTED NET ASSETS		
Fanny T. Cochran Trust	204,512	207,010
Leonard Hastings Schoff Trust	253,876	230,812
Suzanne L. Williamson Endowment	<u>50,000</u>	<u>50,000</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>508,388</u>	<u>487,822</u>
	<u>\$ 6,991,509</u>	<u>\$ 6,653,256</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>2017</u>	<u>2016</u>
Beacham Charitable Lead Trust for operation of shelter	\$ <u>44,000</u>	\$ <u>44,000</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 10 SUBSEQUENT EVENTS

On May 7, 2018, the Organization entered into a contractual agreement to purchase an animal shelter located at 1757 Horsepond Road, Dover, DE. The shelter building was purchased from Dixon Enterprises, LLC at a cost of \$72,500. The building was formerly owned and operated by the Kent County SPCA, has been vacant for several years, and will require major improvements in order for the facility to be usable. Major renovations are expected to occur during 2018, with expected completion date by the end of 2018. The upgraded facility, upon completion, will be opened to allow the BVSPCA to serve the residents of Kent County by providing housing for stray animals and other low-cost services.

On May 3, 2018, the Organization entered into a ten-year term loan with WSFS Bank in the amount of \$600,000, at an interest rate of 5.07%, with monthly payments commencing on June 3, 2018. The Organization plans to use this term loan primarily to continue to improve its existing animal shelter in Georgetown, DE, as well as the animal shelter in Dover, DE, as described above.

On May 17, 2018, the Organization also entered into a line of credit agreement with WSFS Bank in the amount of \$1,000,000, at a variable interest rate which is currently 4.75%. The Organization plans to use this line of credit primarily to purchase or erect a rehabilitation and training facility for animals at a Delaware location to be determined.