

BRANDYWINE VALLEY SPCA
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mingis, Gutowski & Company, LLP

Media, Pennsylvania
August 15, 2019

BRANDYWINE VALLEY SPCA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 980,070	\$ 619,198
Short-term investments, other	-	6,839
Unconditional support receivable	15,231	14,606
Other receivables	76,028	88,232
Prepaid expenses	30,125	34,627
Current portion of contributions receivable from charitable lead annuity trusts	<u>32,856</u>	<u>31,280</u>
TOTAL CURRENT ASSETS	<u>1,134,310</u>	<u>794,782</u>
NONCURRENT ASSETS		
Long-term investments	2,949,002	3,327,491
Property and equipment, net of accumulated depreciation of \$1,978,640 (2018) and \$1,492,035 (2017)	5,482,267	3,466,751
Contributions receivable from charitable lead annuity trusts, net of current portion	204,266	237,122
Beneficial interest in perpetual trusts	<u>399,154</u>	<u>458,388</u>
TOTAL NONCURRENT ASSETS	<u>9,034,689</u>	<u>7,489,752</u>
TOTAL ASSETS	<u>\$ 10,168,999</u>	<u>\$ 8,284,534</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 780,565	\$ 616,500
Current portion of long-term debt	66,785	12,448
Accrued payroll and payroll taxes	196,664	182,932
Deferred revenue	<u>388,975</u>	<u>156,691</u>
TOTAL CURRENT LIABILITIES	<u>1,432,989</u>	<u>968,571</u>
LONG-TERM DEBT	<u>599,152</u>	<u>324,454</u>
TOTAL LIABILITIES	<u>2,032,141</u>	<u>1,293,025</u>
NET ASSETS		
Without Donor Restrictions	7,450,582	6,208,469
With Donor Restrictions	<u>686,276</u>	<u>783,040</u>
TOTAL NET ASSETS	<u>8,136,858</u>	<u>6,991,509</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,168,999</u>	<u>\$ 8,284,534</u>

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

BRANDYWINE VALLEY SPCA

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues, gains and other support:		
Contributions and grant revenue	\$ 1,334,741	\$ 1,240,972
Memorial funds and bequests	398,210	672,353
Investment gain (loss)	(315,120)	378,353
Program revenue	5,662,647	4,891,693
Special events	1,134,822	801,278
Special event costs	(457,086)	(399,202)
Capital Campaign	1,454,609	-
Capital Campaign costs	(57,302)	-
Net assets released from restrictions	<u>50,250</u>	<u>68,250</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>9,205,771</u>	<u>7,653,697</u>
Expenses:		
Program services, animal welfare	<u>7,400,079</u>	<u>6,695,113</u>
Supporting services:		
Management and general	280,209	342,280
Fund-raising	<u>283,370</u>	<u>244,588</u>
TOTAL SUPPORTING SERVICES	<u>563,579</u>	<u>586,868</u>
TOTAL EXPENSES	<u>7,963,658</u>	<u>7,281,981</u>
 CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	 <u>1,242,113</u>	 <u>371,716</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Change in value of split-interest trust agreements	12,720	14,221
Net assets released from restrictions	(50,250)	(68,250)
Gain (loss) in perpetual trusts	<u>(59,234)</u>	<u>20,566</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(96,764)</u>	<u>(33,463)</u>
 CHANGE IN NET ASSETS	 <u>\$ 1,145,349</u>	 <u>\$ 338,253</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, 2018 AND 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
NET ASSETS AT JANUARY 1, 2017	\$ 5,836,753	\$ 816,503	\$ 6,653,256
Change in net assets	<u>371,716</u>	<u>(33,463)</u>	<u>338,253</u>
NET ASSETS AT DECEMBER 31, 2017	6,208,469	783,040	6,991,509
Change in net assets	<u>1,242,113</u>	<u>(96,764)</u>	<u>1,145,349</u>
NET ASSETS AT DECEMBER 31, 2018	<u>\$ 7,450,582</u>	<u>\$ 686,276</u>	<u>\$ 8,136,858</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, 2018 AND 2017

	2018			2017		
	Program Services Animal Welfare	Supporting Services Management and General	Totals	Program Services Animal Welfare	Supporting Services Management and General	Totals
FUNCTIONAL EXPENSES						
Payroll	\$3,208,385	\$ 161,833	\$3,495,237	\$2,787,783	\$ 154,131	\$3,064,173
Adoption Center rental/Remote Location expense	130,673	-	130,673	145,507	-	145,507
Advertising and promotion	48,018	-	48,018	19,346	-	19,346
Ambulance and transportation expenses	193,749	13,535	207,284	240,474	4,129	244,603
Animal food	39,985	-	39,985	26,788	-	26,788
Animal supplies and cremation expense	33,439	-	33,439	28,936	-	28,936
Return to Field Program expense	-	-	-	53,118	-	53,118
Depreciation	501,337	3,588	504,925	402,484	4,244	406,728
Emergency vet care	137,624	-	137,624	75,326	-	75,326
Employee benefits	206,306	24,782	231,088	146,756	22,226	168,982
Insurance	76,557	3,997	80,554	74,506	6,833	81,339
Interest expense	36,380	-	36,380	16,673	-	16,673
Investment fees	-	20,935	20,935	-	20,203	20,203
Lab fees, small medical equipment, and vaccinations	230,746	-	230,746	140,827	-	140,827
Professional fees and subcontractor expenses	252,629	11,904	264,533	106,796	76,619	183,415
Maintenance and repairs	453,399	10,471	463,870	547,374	4,543	551,917
Mega Adoption expenses	299,169	-	299,169	320,653	-	320,653
Merchant service fees and merchandise purchases	238,219	5,612	243,831	333,797	5,317	339,114
Office administrative costs, uniforms, and supplies expense	294,687	18,003	312,690	246,334	32,314	278,648
Payroll taxes	265,859	12,900	278,759	228,372	9,815	238,187
Postage	8,540	2,597	11,137	8,141	1,221	9,362
Real estate taxes	3,644	6,715	10,359	4,230	-	4,230
Training and conference	89,597	159	90,756	57,463	427	57,890
Utilities and telephone	163,365	3,428	166,793	139,553	4,387	143,940
Veterinarian and medical supplies	497,172	-	497,172	543,776	6,210	549,986
TOTAL FUNCTIONAL EXPENSES	\$7,400,079	\$ 280,209	\$7,680,288	\$6,695,113	\$ 342,280	\$7,037,393

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

BRANDYWINE VALLEY SPCA
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,145,349	\$ 338,253
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Investment fees	24,909	20,203
Dividends reinvested in long-term investments	(87,384)	(108,963)
Depreciation	507,955	409,816
Realized gains on long-term investments	67,108	132,987
Unrealized gains (losses) on long-term investments	(379,099)	136,404
Gain (loss) in perpetual trusts	59,234	(20,567)
Changes in:		
Short-term investments, other	6,839	(1)
Unconditional support receivable	(625)	(3,606)
Other receivables	12,204	(14,850)
Prepaid expenses	4,502	12,606
Contributions receivable from charitable lead annuity trusts	31,280	29,779
Security deposit	-	2,000
Accounts payable and accrued expenses	164,065	156,625
Accrued payroll and payroll taxes	13,732	76,206
Deferred revenue	<u>232,284</u>	<u>57,995</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,802,353</u>	<u>1,224,887</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2,523,471)	(559,510)
Purchase of investments	<u>-</u>	<u>(523,088)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,523,471)</u>	<u>(1,082,598)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from securities' sales	752,955	-
Repayment of long-term debt	(670,965)	(141,114)
Loan proceeds of long-term debt	<u>1,000,000</u>	<u>-</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>1,081,990</u>	<u>(141,114)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>360,872</u>	<u>1,175</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>619,198</u>	<u>618,023</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 980,070</u>	<u>\$ 619,198</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 36,380	\$ 16,673
Noncash investing and financing activities:		
Reinvestment of dividends	\$ 87,384	\$ 108,963
Investment fees paid using proceeds from the sale of investments	\$ 24,909	\$ 20,203

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

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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, New Castle, Delaware, Georgetown, Delaware, Dover, 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, fund-raising events, and capital campaign funding. A significant amount of revenues, gains and other support received by the Organization are 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.

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.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

Financial Statement Presentation

The financial presentation follows the recommendations of ASC 958-205, Not-For-Profit Entities – Presentation of Financial Statements. Accordingly, the Organization is required to report information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets without Donor Restrictions – Resources not subject to donor or grantor restrictions over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board members have set aside for a particular purpose.

Net Assets with Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

Recently Issued Accounting Standards

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for profits (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in formation about liquidity and availability of resources, and the lack of consistency in the type of information

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions (see Financial Statement Presentation above).

Support Without Donor Restrictions and Support With Donor Restrictions

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

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 net assets with donor restrictions to net assets without donor restrictions with the expiration of the donor restriction.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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 net assets without donor restrictions or net assets with donor restrictions support, depending on the existence or nature of any donor restrictions. Seven estates accounted for approximately 4% of the Organization's support for the year ended December 31, 2018, and thirteen estates accounted for approximately 9% of the Organization's support for the year ended December 31, 2017.

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, 2018 and 2017, the uninsured portion of this balance was \$807,106 and \$293,581, 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.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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.”

Donated Services

The Organization receives donated services related to its operations and special events. There were no donated services in 2018 and in 2017.

Deferred Revenue

Deferred revenue consists of grant revenue and revenue from animal control contracts that were received and unearned at December 31, 2018 and unearned animal protective services revenue from townships in Chester and Delaware Counties.

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. For the year ended December 31, 2018, the Organization’s contribution to its 403(b) pension plan was \$59,559.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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.

Advertising and Promotion Costs

The Organization expenses advertising and promotion costs as incurred. Advertising and promotion costs for the years ended December 31, 2018 and 2017, were \$61,553 and \$23,375, respectively.

Date of Management's Review

Management has evaluated subsequent events through August 15, 2019, the date which the financial statements were available to be issued.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2018</u>	<u>2017</u>
Land	\$ 394,535	\$ 183,139
Buildings	5,574,666	3,374,302
Furniture and equipment	471,361	429,409
Vehicles	346,297	329,101
Leasehold improvements	<u>674,048</u>	<u>642,835</u>
	7,460,907	4,958,786
Accumulated depreciation	<u>(1,978,640)</u>	<u>(1,492,035)</u>
	<u>\$ 5,482,267</u>	<u>\$ 3,466,751</u>

NOTE 3 INVESTMENTS

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

	<u>2018</u>			<u>2017</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	\$ -	\$ -	\$ -	\$ 6,839	\$ 6,839	\$ -
Common/preferred stocks	1,983,555	1,758,191	(225,364)	1,744,392	1,453,415	(290,977)
Government securities	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Exchange traded products	-	-	-	-	-	-
Mutual funds	1,264,063	1,119,641	(144,422)	1,370,356	1,793,409	423,053
Beneficial interest in assets held by the Community Foundation	<u>80,483</u>	<u>71,170</u>	<u>(9,313)</u>	<u>76,339</u>	<u>80,667</u>	<u>4,328</u>
	<u>\$ 3,328,101</u>	<u>\$ 2,949,002</u>	<u>\$ (379,099)</u>	<u>\$ 3,197,926</u>	<u>\$ 3,334,330</u>	<u>\$ 136,404</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 3 INVESTMENTS (CONTINUED)

Investment return is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 87,384	\$ 108,962
Net realized and unrealized gains (losses)	<u>(402,504)</u>	<u>269,391</u>
	<u>\$ (315,120)</u>	<u>\$ 378,353</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, 2018 and 2017, the Foundation held funds totaling \$48,203 and \$54,635, respectively, at fair market value in such accounts.

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.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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:

	2018		2017	
	Level 1	Level 3	Level 1	Level 3
Common/preferred stocks	\$ 1,756,927	\$ -	\$ 1,453,415	\$ -
Certificates of deposit	-	-	-	-
Government securities	-	-	-	-
Corporate bonds	-	-	-	-
Exchange traded products	-	-	-	-
Mutual funds	1,119,642	-	1,793,409	-
Beneficial interest in assets held by the Community Foundation	-	71,170	-	80,667
Beneficial interest in perpetual trusts	-	399,154	-	458,388
Contributions receivable from charitable lead annuity trusts	-	237,122	-	268,402
	<u>\$ 2,876,569</u>	<u>\$ 707,446</u>	<u>\$ 3,246,824</u>	<u>\$ 807,457</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.

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, 2018 and 2017.

BRANDYWINE VALLEY SPCA
NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2017	\$ 71,372
Realized gains	1,192
Unrealized gains	4,328
Investment income	4,945
Fees	<u>(1,170)</u>
BALANCE, DECEMBER 31, 2017	80,667
Realized gains	1,816
Unrealized losses	(9,313)
Investment income	3,184
Fees	<u>(5,184)</u>
BALANCE, DECEMBER 31, 2018	<u>\$ 71,170</u>
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	
Balance, January 1, 2017	\$ 437,821
Gain in perpetual trusts	<u>20,567</u>
BALANCE, DECEMBER 31, 2017	458,388
Loss in perpetual trusts	<u>(59,234)</u>
BALANCE, DECEMBER 31, 2018	<u>\$ 399,154</u>
CONTRIBUTIONS RECEIVABLE FROM CHARITABLE LEAD ANNUITY TRUSTS	
Balance, January 1, 2017	\$ 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	268,402
Distribution paid to the Organization	(44,000)
Change in value of split-interest trust agreements	<u>12,720</u>
BALANCE, DECEMBER 31, 2018	<u>\$ 237,122</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5 CONTRIBUTIONS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Beacham Charitable Lead Annuity Trust II discounted at 4.94%, annuity of \$22,000 paid quarterly for 20 years until December 31, 2022	\$ 85,874	\$ 99,567
Beacham Charitable Lead Annuity Trust III discounted at 4.94%, annuity of \$22,000 paid quarterly for 25 years until December 31, 2027	<u>151,248</u>	<u>168,835</u>
	<u>\$ 237,122</u>	<u>\$ 268,402</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.

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

Year Ending <u>December 31,</u>	
2019	\$ 44,000
2020	44,000
2021	44,000
2022	44,000
2023	44,000
Thereafter	<u>53,258</u>
	273,258
Amount of unamortized discount	<u>(36,136)</u>
PRESENT VALUE OF EXPECTED FUTURE CASH FLOWS	<u>\$ 237,122</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5 CONTRIBUTIONS RECEIVABLE (CONTINUED)

For the years ended December 31, 2018 and 2017, the amortized discount recorded in the statements of activities in the net assets with donor restrictions class as a change in the value of split-interest agreements was \$12,720 and \$14,221, 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.

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

	<u>2018</u>	<u>2017</u>
Fanny T. Cochran Trust	\$ 173,101	\$ 204,512
Leonard Hastings Schoff Trust	<u>226,053</u>	<u>253,876</u>
	<u>\$ 399,154</u>	<u>\$ 458,388</u>

The trusts' assets are primarily invested in cash and cash equivalents and common stocks at December 31, 2018 and 2017.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 7 COMMERCIAL TERM LOANS

In December 2014, the Organization obtained a commercial term loan from WSFS Bank to fund the expansion and renovation of its existing commercial property located in West Chester, Pennsylvania. The original loan was in the amount of \$473,619, with a seven-year term with monthly payments of \$2,549, including interest at 4.125%, with a balloon payment due on December 1, 2021. In October 2018, the Organization satisfied and repaid this loan in its entirety. The balance at December 31, 2017 was \$336,902. Total interest paid for the year ended December 31, 2018 was \$10,402. There was no interest capitalized during the years ended December 31, 2018 and 2017.

In May 2018, the Organization obtained a commercial term loan from WSFS Bank to fund the purchase and capital improvements of the Georgetown, Delaware shelter in the amount of \$600,000, with a ten-year term with monthly payments of \$4,006, including interest at 5.07%. As of December 31, 2018, the Organization repaid \$326,515 of this loan, leaving a balance at December 31, 2018 of \$273,485. Total interest paid for the year ended December 31, 2018 was \$20,454. There was no interest capitalized on this loan in 2018.

In September 2018, the Organization obtained another commercial term loan from County Bank to fund the purchase of the Shingle Point Road property, also in Georgetown, Delaware, in the amount of \$400,000, with a ten-year term with monthly payments of \$4,357, including interest at 5.5%. As of December 31, 2018, the Organization repaid \$7,548 on this loan, leaving a balance of \$392,452 at December 31, 2018. Total interest paid for the year ended December 31, 2018 was \$5,524. There was no interest capitalized on this loan in 2018.

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

<u>Year Ending</u> <u>December 31,</u>	
2019	\$ 66,785
2020	70,117
2021	73,906
2022	77,901
Thereafter	<u>377,228</u>
	<u>\$ 665,937</u>

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 8 LINE OF CREDIT

In May 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 of 4.75%. During 2018, there were no borrowings and reductions on this line of credit.

NOTE 9 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>	
2019	\$ 91,881
2020	93,341
2021	94,831
2022	96,351
2023	97,901
2024	99,483
2025	<u>16,625</u>
	<u>\$ 590,413</u>

Operating lease rental expense for this building for the year ended December 31, 2018 was \$90,453.

BRANDYWINE VALLEY SPCA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 10 NET ASSETS

Net assets consist of the following:

	<u>2018</u>	<u>2017</u>
WITHOUT DONOR RESTRICTIONS	\$ <u>7,450,582</u>	\$ <u>6,208,469</u>
WITH DONOR RESTRICTIONS		
Beacham Charitable Lead Trusts	237,122	268,402
Henry's Cupboard food pantry	-	6,250
Fanny T. Cochran Trust	173,101	204,512
Leonard Hastings Schoff Trust	226,053	253,876
Suzanne L. Williamson Endowment	<u>50,000</u>	<u>50,000</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>686,276</u>	<u>783,040</u>
	<u>\$ 8,136,858</u>	<u>\$ 6,991,509</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>2018</u>	<u>2017</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, 2018 AND 2017

NOTE 11 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets as of December 31, 2018 and 2017 that could readily be made available within one year to fund expenses without limitations:

	<u>2018</u>	<u>2017</u>
Financial Assets:		
Cash	\$ 980,070	\$ 619,198
Investments	<u>2,949,002</u>	<u>3,334,330</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,929,072</u>	<u>\$ 3,953,528</u>