



Virginia Beach Society for the Prevention of Cruelty to Animals

Financial Report
August 31, 2015 and 2014



ASSURANCE, TAX & ADVISORY SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Beach Society for the Prevention of Cruelty to Animals
Virginia Beach, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Beach Society for the Prevention of Cruelty to Animals (the "Organization") which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Virginia Beach Society for the Prevention of Cruelty to Animals as of August 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PB Mares, LLP

Norfolk, Virginia
January 6, 2016

FINANCIAL STATEMENTS

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Statements of Financial Position

August 31, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 154,771	\$ 112,719
Accounts receivable	44,469	50,867
Inventory	33,963	-
Security deposit	2,460	-
Prepaid insurance and expenses	17,739	14,306
Total current assets	253,402	177,892
PROPERTY AND EQUIPMENT, NET	2,098,163	2,087,519
OTHER ASSETS		
Investments	4,053,959	4,404,761
Total assets	\$ 6,405,524	\$ 6,670,172
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 62,701	\$ 62,556
Accrued expenses	105,584	66,734
Deferred revenue	20,321	-
Line of credit	100,000	50,000
Capital lease, current portion	6,553	6,140
Total current liabilities	295,159	185,430
LONG-TERM LIABILITIES		
Capital lease, net of current portion	5,796	12,349
Total liabilities	300,955	197,779
NET ASSETS		
Unrestricted	6,027,984	6,333,697
Temporarily restricted	74,585	136,696
Permanently restricted	2,000	2,000
Total net assets	6,104,569	6,472,393
Total liabilities and net assets	\$ 6,405,524	\$ 6,670,172

See accompanying notes.

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Statements of Activities
Years Ended August 31, 2015 and 2014

	2015	2014
CHANGE IN UNRESTRICTED NET ASSETS		
Support and revenue		
Clinic veterinary medical services	\$ 1,219,132	\$ 1,061,849
Contributions	685,209	446,362
Fundraising	475,989	308,617
Adoptions	350,901	329,171
Programs	278,792	128,649
In-kind contributions	105,246	87,434
Pet supplies	15,358	15,145
Miscellaneous	10,039	13,067
Grants	5,267	35,370
Shelter medical income	1,664	2,237
Realized and unrealized gains (losses), dividend and interest income	104,056	651,652
Net assets released from restriction, satisfaction of restrictions	247,897	83,972
Total unrestricted support and revenue	3,499,550	3,163,525
EXPENSES		
Program services	3,296,077	2,621,084
Supporting services, management and general	140,871	129,850
Supporting services, fundraising	365,589	296,668
Total expenses	3,802,537	3,047,602
OTHER GAINS (LOSSES)		
Gain (loss) on disposal of property and equipment	(2,726)	30,000
Change in unrestricted net assets	(305,713)	145,923
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	250	22,043
Realized and unrealized gains (losses), dividend and interest income	78	325
In-kind contributions	15,964	-
Grant income	169,494	124,860
Net assets released from restriction, satisfaction of restrictions	(247,897)	(83,972)
Change in temporarily restricted net assets	(62,111)	63,256
CHANGE IN NET ASSETS	(367,824)	209,179
NET ASSETS, BEGINNING OF YEAR	6,472,393	6,263,214
NET ASSETS, END OF YEAR	\$ 6,104,569	\$ 6,472,393

See accompanying notes.

VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses
Year Ended August 31, 2015

	Program Services	Supporting Services		Total Functional Expenses
		Management and General	Fundraising	
Accounting and professional	\$ 50,264	\$ 2,957	\$ 5,913	\$ 59,134
Adoption expense	52,814	-	-	52,814
Advertising	1,282	-	-	1,282
Animal medical and supplies	109,193	-	-	109,193
Clinic expense	1,420,991	-	-	1,420,991
Communications and technology	25,375	1,493	2,985	29,853
Cost of goods sold	22,369	-	-	22,369
Cost of events and direct mail	-	-	169,235	169,235
Deprecation and amortization	224,080	-	-	224,080
Employee benefits	56,139	3,302	6,605	66,046
Insurance	26,712	1,161	1,161	29,034
Interest and investment fees	32,956	-	-	32,956
Kennel and animal supplies	58,230	-	-	58,230
Miscellaneous	9,350	550	1,100	11,000
Office	18,050	1,062	2,124	21,236
Postage	4,192	280	1,118	5,590
Program expenses	152,633	-	-	152,633
Repairs and maintenance	55,109	1,160	1,740	58,009
Salaries	854,488	118,810	159,029	1,132,327
Taxes and licenses	64,793	8,525	11,935	85,253
Travel and seminars	9,796	576	1,152	11,524
Utilities	47,261	995	1,492	49,748
Total	\$ 3,296,077	\$ 140,871	\$ 365,589	\$ 3,802,537

See accompanying notes.

VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses
Year Ended August 31, 2014

	Program Services	Supporting Services		Total Functional Expenses
		Management and General	Fundraising	
Accounting and professional	\$ 30,614	\$ 1,801	\$ 3,602	\$ 36,017
Adoption expense	43,629	-	-	43,629
Advertising	192	-	-	192
Animal medical and supplies	85,315	-	-	85,315
Clinic expense	1,204,988	-	-	1,204,988
Communications and technology	19,543	1,150	2,299	22,992
Cost of events and direct mail	-	-	123,128	123,128
Depreciation and amortization	199,681	-	-	199,681
Employee benefits	56,486	3,323	6,645	66,454
Insurance	25,149	1,397	1,397	27,943
Interest and investment fees	28,347	-	-	28,347
Kennel and animal supplies	43,626	-	-	43,626
Miscellaneous	1,544	1,665	3,329	6,538
Office	20,914	1,230	2,460	24,604
Postage	3,729	249	995	4,973
Program expenses	49,381	-	-	49,381
Repairs and maintenance	57,666	1,214	1,821	60,701
Salaries	647,701	107,976	138,116	893,793
Taxes and licenses	51,574	8,478	10,597	70,649
Travel and seminars	7,770	457	914	9,141
Utilities	43,235	910	1,365	45,510
Total	\$ 2,621,084	\$ 129,850	\$ 296,668	\$ 3,047,602

See accompanying notes.

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Statements of Cash Flows
Years Ended August 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (367,824)	\$ 209,179
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss (gain) on disposition of property and equipment	2,726	(30,000)
Depreciation and amortization	224,080	199,681
Realized gains on investments	(534,764)	(270,486)
Unrealized loss (gain) on investments	521,338	(292,748)
In-kind facility use rights	(10,011)	-
Non-cash contributions		
Fair market value when received	-	(2,649)
Cash proceeds from sales	-	2,649
Receipt of donated property and equipment	(22,721)	(4,070)
Change in operating assets and liabilities:		
Accounts receivable	6,398	(7,845)
Inventory	(33,963)	-
Deposits	(2,460)	-
Prepaid insurance and expenses	(3,433)	(1,919)
Accounts payable	145	17,603
Deferred revenue	20,321	-
Accrued expenses	38,850	(2,865)
	(161,318)	(183,470)
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(204,818)	(52,148)
Net proceeds from disposition of property and equipment	100	30,000
Proceeds from sale of investments	2,099,846	1,327,764
Purchases of investments	(1,735,618)	(1,449,095)
	159,510	(143,479)
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on line of credit	(150,000)	-
Borrowings on line of credit	200,000	50,000
Principal payments on capital lease obligation	(6,140)	(5,752)
	43,860	44,248
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	42,052	(282,701)

(Continued)

See accompanying notes.

VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Cash Flows
Years Ended August 31, 2015 and 2014

(Concluded)

	<u>2015</u>	<u>2014</u>
CASH AND CASH EQUIVALENTS		
Beginning	\$ <u>112,719</u>	\$ <u>395,420</u>
Ending	\$ <u>154,771</u>	\$ <u>112,719</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid during the year for interest	\$ <u>3,838</u>	\$ <u>1,835</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
In-kind facility use rights	\$ <u>15,964</u>	\$ <u>-</u>
In-kind donations	\$ <u>82,525</u>	\$ <u>83,364</u>
In-kind property and equipment donations	\$ <u>22,721</u>	\$ <u>4,070</u>

See accompanying notes.

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Virginia Beach Society for the Prevention of Cruelty to Animals (the "Organization") is a Virginia non-stock, non-for-profit corporation, engaged in the prevention of cruelty to animals, including, but not limited to, the operation of an animal shelter, "low income veterinary clinic" and the education of the community as regards to animal welfare and humane issues.

Basis of presentation

The financial statements have been prepared using the accrual method of accounting. 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. The financial statement will report amounts separately by class of asset, when applicable, as follows:

Unrestricted - Amounts that are undesignated are currently available for use in the operations of the Organization.

Temporarily restricted - Amounts are those which are stipulated by donors for specific purposes. When a donor restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted - Amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor or subject to the other restrictions. All of the Organization's grants are treated similar to contributions based on the terms of the agreements which provide support for the Organization's programs. Restricted support whose restrictions are satisfied during the same fiscal year in which the support is recognized is classified as unrestricted support.

Use of estimates

The preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

(Continued)

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents includes all monies in banks and highly liquid investments with maturity dates less than one year. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts receivable

Accounts receivable consist of trade receivables at amounts billed less an allowance for doubtful accounts. As of August 31, 2015 and 2014, \$5,246 and \$5,725, respectively, representing employee receivables for clinical services were included in accounts receivable. Management considers all trade receivables over 30 days to be past due. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past collection experience, current economic conditions, and other risks inherent in the receivable portfolio. No allowance for doubtful accounts was deemed necessary as of August 31, 2015 and 2014.

Inventory

Inventory consists of pet supplies maintained and sold at the Organization's satellite adoption center and is stated at the lower of cost (first-in/first-out) or market.

Investments

The Organization's investments are recorded at fair market value based on quoted market prices. Realized gains and losses are determined on the basis of actual cost of the securities sold. Realized and unrealized gains and losses are included in the statements of activities. Fees related to the investments were \$29,118 and \$26,755 in 2015 and 2014, respectively. These amounts are included within interest and investment fees expense in the accompanying statements of functional expenses.

Additional disclosure on investments have been included in Note 9.

Property and equipment

Property and equipment are stated at cost if purchased or fair value as of the date of gift if donated. Depreciation of property and equipment is provided using the straight-line method, over estimated useful lives of 3 to 39 years. Assets having a cost of \$1,000 or greater and an expected life of one or more years are capitalized.

Construction in progress as of August 31, 2015 was for renovations at the medical clinic, located in Virginia Beach, Virginia.

(Continued)

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional allocation of expenses

The costs of providing various program services and supporting activities have been provided on a functional basis in the statements of functional expenses. Accordingly, certain costs, have been allocated among the program services and supporting services benefitted.

Advertising costs

The Organization expenses advertising costs as incurred. Total advertising expense for the years ended August 31, 2015 and 2014 was \$3,677 and \$541, respectively.

Facility Use Rights

Facility use rights are temporarily restricted assets that consist of long-term in-kind lease agreements for the lease of facilities. These agreements are for initial terms of three years or more. The facility use rights are capitalized and valued at the present value of the in-kind contribution over the life of the related leases. In subsequent years the rights are released from restriction by the in-kind expense relating to the use of the asset for the year. The in-kind contribution for the facility use rights is recognized in the year the lease agreement is entered into and in subsequent years for changes in present value reported in the statements of activities.

Income taxes

The Virginia Beach Society for the Prevention of Cruelty to Animals is a not-for-profit organization organized under Section 501(c)(3) of the Internal Revenue Code. Therefore, a provision for income taxes is not provided.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of this guidance to its financial statements. The Organization is not aware of any material uncertain tax positions, and has not accrued the effect of any uncertain tax positions as of August 31, 2015. With few exceptions, the Organization is no longer subject to income tax examinations by federal, state or local tax authorities for years before 2011. Any interest and penalties incurred by the Organization in connection with its tax positions are included in the accompanying statements of functional expenses as interest and penalties expense, respectively.

(Continued)

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Donated Materials, Services and Facilities

Donated goods and services are recorded based on the fair market value as of the date received for the donated goods and the estimated number of hours at an estimated hourly rate of the persons performing the services. The Organization conducts a satellite adoption center in a partially donated facility. These contributed goods, services and facilities are reflected in the accompanying financial statements as donated goods, services and use of facilities as well as kennel and animal supplies expense, cost of events and direct mail expense, and office expense as appropriate. During the years ended August 31, 2015 and 2014, the Organization received \$105,245 and \$87,434, respectively, in donated goods, services and \$15,964 and \$0 of donated facilities use, respectively.

No amounts have been reflected in the financial statements for donated volunteer services in as much as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Organization's programs and events.

Reclassifications

Certain reclassifications were made to the 2014 balances to conform to the 2015 presentation. These reclassifications had no effect on the previously reported change in net assets.

NOTE 2. PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 121,448	\$ 121,448
Buildings	1,134,503	1,134,503
Furniture, fixtures and equipment	865,763	790,118
Building improvements	304,467	296,155
Leasehold improvements	84,141	-
Building expansion	1,629,432	1,629,432
Construction in progress	55,371	-
Facility use rights	<u>10,011</u>	-
	4,205,136	3,971,656
Less accumulated depreciation	<u>2,106,973</u>	<u>1,884,137</u>
	<u>\$ 2,098,163</u>	<u>\$ 2,087,519</u>

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 3. FACILITY USE RIGHT LEASE

The Organization entered into a long term lease that provides for future in-kind rent of a facility. The present value of future in-kind rents is included in the accompanying statements of financial position as a facility use right and is temporarily restricted. The Organization has recognized temporarily restricted in-kind contributions totaling \$15,964 related to long term in-kind use of the facility. Annually, the temporarily restricted net asset is released from restriction as the facility is used pursuant to the released lease and totaled \$5,953 for the year end August 31, 2015.

The present values of future in-kind lease rents as of August 31, 2015 are as follows:

2016	\$	4,977
2017		<u>5,034</u>
	\$	<u><u>10,011</u></u>

NOTE 4. CAPITAL LEASE

The Organization purchased a blood machine under a capital lease with Abaxis that expires on July 15, 2017. The assets and liabilities under the capital lease are recorded at the lower of present value of the minimum lease payments or the fair value of the asset. The asset is amortized over 7 years. Amortization of the asset under the capital lease is included in depreciation expense for the fiscal years 2015 and 2014.

Following is a summary of property held under capital lease:

Blood machine	\$	30,496
Accumulated depreciation		<u>(13,796)</u>
	\$	<u><u>16,700</u></u>

Minimum future lease payments under the capital lease as of August 31, 2015, were as follows:

2016	\$	7,165
2017		<u>5,972</u>
Net minimum lease payments		13,137
Amount representing interest		<u>(788)</u>
Present value of net minimum lease payments		12,349
Less present value of current portion of lease payments		<u>(6,553)</u>
Long-term portion of lease payment	\$	<u><u>5,796</u></u>

(Continued)

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 4. CAPITAL LEASE (Concluded)

The interest rate on the capitalized lease was 6.529% and is imputed based on the lower of the Organization's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

The capital lease held with Abaxis includes a \$1 purchase option at the end of the lease period.

NOTE 5. LEASE COMMITMENTS

The Virginia Beach SPCA leases copier and postage meter equipment under noncancellable operating leases. On September 24, 2014 the Organization entered into a lease for office space to be used as a satellite adoption center. The lease provides for an annual base rent of \$29,520 with annual escalations of 3% and expires in 2017. During fiscal years 2015 and 2014, the related lease expenses were \$35,258 and \$10,334, respectively.

Future minimum lease commitments for the years ending August 31, are as follows:

2016	\$ 43,211
2017	43,967
2018	14,914
2019	2,124
2020	<u>177</u>
	<u>\$ 104,393</u>

NOTE 6. CONCENTRATIONS

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of August 31, 2015 and 2014, the Organization did not have any amounts which exceeded these insured amounts.

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted funds at August 31, 2015 and 2014 include amounts restricted for the following:

	<u>2015</u>	<u>2014</u>
Unexpended contributions and interest for education purposes	\$ 21,116	\$ 22,043
Unexpended grant for senior dogs	5,800	4,000
Unexpended grant for equipment and leasehold improvements	35,346	982
Unexpended grant for humane education	1,962	-
Unexpended grant for wildlife rehabilitation renovation and services	-	18,523
Unexpended grant for match-a-thon event	-	7,500
Unexpended grant for Neuter Scooter services for a specific area of Hampton Roads	-	31,580
Unexpended community foundation grant for various needs	-	51,756
Unexpended interest, realized and unrealized gains (loss)	350	312
Facility use asset	<u>10,011</u>	-
Total temporarily restricted net assets	<u>\$ 74,585</u>	<u>\$ 136,696</u>

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 8. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by grantors or donors during the years ended August 31, 2015 and 2014 include the following:

	<u>2015</u>	<u>2014</u>
Amounts expended for humane education	\$ 12,269	\$ -
Amounts expended for senior dogs	4,731	4,000
Amounts expended for purchase of equipment and leasehold improvements	65,636	7,231
Amounts expended for animal medical care	-	300
Amounts expended for listening ears program	15,000	-
Amounts expended for bird equipment and care	-	775
Amounts expended for wildlife rehabilitation and renovation services	47,228	-
Amounts expended for match-a-thon event	7,500	4,930
Amounts expended for hope program	-	10,000
Amounts expended or returned for Neuter Scooter services for a specific area of Hampton Roads	31,580	5,420
Amounts expended for SAWA Conference expenses	-	1,000
Amounts expended for various designated expenses	51,756	48,243
Amounts expended for care and transport of injured pelicans	-	1,000

(Continued)

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 8. NET ASSETS RELEASED FROM RESTRICTIONS (Concluded)

	2015	2014
Amounts expended for compassion classroom program	\$ -	\$ 500
Amounts expended to provide vaccinations for specific clinics or areas of Hampton Roads	6,230	540
Amounts released for facility use asset rent	5,953	-
Amounts expended for investment fees	14	13
Total program restrictions satisfied	\$ 247,897	\$ 83,972

NOTE 9. INVESTMENTS

The Organization records fair value adjustments to certain assets and liabilities and determines fair value disclosures. Fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. The three levels of the fair value hierarchy based on these three types of inputs are as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and mode 1-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on mode 1-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

(Continued)

**VIRGINIA BEACH SOCIETY
FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements

August 31, 2015 and 2014

NOTE 9. INVESTMENTS (Continued)

The following tables present the financial instruments carried at fair value based on the ASC Topic 820 valuation hierarchy as of August 31, 2015 and 2014:

	August 31, 2015			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Debt securities	\$ 982,991	\$ -	\$ -	\$ 982,991
Equity securities	3,060,834	-	-	3,060,834
Funds held in trust by others	-	-	10,134	10,134
	\$ 4,043,825	\$ -	\$ 10,134	\$ 4,053,959

	August 31, 2014			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Debt securities	\$ 1,052,902	\$ -	\$ -	\$ 1,052,902
Equity securities	3,351,859	-	-	3,351,859
	\$ 4,404,761	\$ -	\$ -	\$ 4,404,761

The following table summarizes the changes to Level 3 instruments for the year ending August 31, 2015:

Funds Held in Trust by Others

Fair value, beginning of the year	\$ -
Contributions	10,000
Change in value	134
Fair value, end of the year	\$ 10,134

The following describes the valuation methodologies used by the Organization to measure certain assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Debt and marketable equity securities - Investments in debt and marketable equity securities are valued based on quoted market prices (Level 1).

(Continued)

**VIRGINIA BEACH SOCIETY
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Notes to Financial Statements

August 31, 2015 and 2014

NOTE 9. INVESTMENTS (Concluded)

Funds held in trust by others - Primarily consists of funds invested in the United Way of South Hampton Roads Foundation investment fund managed by Wells Fargo. These funds consist of securities that have active markets as well as real assets (real estate and commodity mutual funds or ETFs which are liquid and priced daily). Collectively however, the investment cannot be traded on active markets. If no public market exists for the investment securities, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate (Level 3).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of the different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investment income, including realized gains, unrealized gains (losses), dividends and interest is included in the statements of activities.

Investment income included the following:

	Year Ended August 31, 2015		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 90,637	\$ 71	\$ 90,708
Unrealized gains (losses)	(521,078)	(260)	(521,338)
Realized gains	534,497	267	534,764
Total	\$ 104,056	\$ 78	\$ 104,134

	Year Ended August 31, 2014		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 88,699	\$ 44	\$ 88,743
Unrealized gains (losses)	292,602	146	292,748
Realized gains	270,351	135	270,486
Total	\$ 651,652	\$ 325	\$ 651,977

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Notes to Financial Statements

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NOTE 10. PERMANENTLY RESTRICTED NET ASSETS

The Organization has received to date a \$2,000 contribution that is permanently restricted. The Organization may not use the principal of this endowed gift.

The Organization's endowment consists of a donor-restricted contribution held by the Organization in perpetuity as an endowment. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The by-laws of the Board of Directors provide for the Board, acting to make or cause to be made investments of all Organization funds available for investment. The Board is charged with the responsibility of directing the management of the Organization's endowment fund investments. In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, as authorized by the Uniform Management of Institutional Funds Act of 1972 (UMIFA), the Board has relied upon the actions, reports, information, advice, and counsel taken or provided by its duly constituted committees and the duly appointed officers of the Organization and in doing so has interpreted the law to require the preservation of the fair value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the Organization classifies as permanently restricted net assets the fair value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

Funds with deficiencies - From time-to-time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Board to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets.

Return objectives and risk parameters - The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the rate of inflation (as measured by the Consumer Price Index) by 1.5% per year. To satisfy its long-term rate-of- return objectives, the Organization relies on a total return strategy in which investment

(Continued)

**VIRGINIA BEACH SOCIETY
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Notes to Financial Statements

August 31, 2015 and 2014

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS (Concluded)

returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on liquid securities, securities that can be sold quickly and efficiently with minimal impact of market price.

Spending policy and how the investment objectives relate to spending policy - The Organization has a policy in which all or part of the income from the endowment, shall be used to provide funds for operations.

For the years ended August 31, 2015 and 2014, the Organization had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Asset</u>
Balance as of August 31, 2014	\$ -	\$ 312	\$ 2,000	\$ 2,312
Investment income	-	45	-	45
Realized and unrealized gain (loss)	-	7	-	7
Amounts appropriated for expenditure	14	(14)	-	-
Fund expense – investment fees	<u>(14)</u>	<u>-</u>	<u>-</u>	<u>(14)</u>
Balance as of August 31, 2015	<u>\$ -</u>	<u>\$ 350</u>	<u>\$ 2,000</u>	<u>\$ 2,350</u>
Balance as of August 31, 2013	\$ (26)	\$ -	\$ 2,000	\$ 1,974
Investment income	26	44	-	70
Realized and unrealized gain (loss)	-	281	-	281
Amounts appropriated for expenditure	13	(13)	-	-
Fund expense – investment fees	<u>(13)</u>	<u>-</u>	<u>-</u>	<u>(13)</u>
Balance as of August 31, 2014	<u>\$ -</u>	<u>\$ 312</u>	<u>\$ 2,000</u>	<u>\$ 2,312</u>

NOTE 11. LINE OF CREDIT

The Organization has a revolving line of credit with SunTrust Bank for \$250,000 to be drawn upon as needed. Payments of interest only are due monthly and principal plus all unpaid accrued interest is due on demand. Amounts advanced and due under the agreement accrue interest at the variable SunTrust Prime Rate. The balance on the line of credit was \$100,000 and \$50,000 at August 31, 2015 and 2014, respectively. The line is collateralized by all assets, including but not limited to, accounts, inventory, furniture, fixtures, equipment, general intangibles, instruments, documents and chattel paper, whether now existing or hereafter acquired, and all proceeds and products thereof as more particularly described in a security agreement executed between the Organization and SunTrust Bank.

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NOTE 12. RELATED PARTY TRANSACTIONS

The Organization's related party transactions during the years ended August 31, 2015 and 2014 were related to members of the Board of Directors, receivables from employees (as previously disclosed in Note 1), and an affiliated organization.

During the years ended August 31, 2015 and 2014, the Organization received \$63,202 and \$45,053 in contributions from Board members. Additionally, various Board members provided pro bono legal advice and services to the Organization during 2015 and 2014.

During the year ended August 31, 2015, the Organization contracted the services of Taylor Construction which is owned by a Board member totaling \$99,533, of which \$22,722 was donated as in-kind services and is included in the \$63,202 Board contributions balance noted above. At August 31, 2015 the Organization had \$22,803 in outstanding payables to Taylor Construction.

During the year ended August 31, 2015, the Organization along with the Norfolk SPCA and Chesapeake Humane Society became affiliated with an organization named Happy Paws. The Organization has no ownership interest in, nor control of, Happy Paws. The Organization has one common board member with Happy Paws. The Organization provides consulting and administrative services for which they are reimbursed. Total income for these services during 2015 was \$40,615 and there were no payables or receivables at year end.

NOTE 13. SUBSEQUENT EVENTS

The Organization has evaluated all events subsequent to August 31, 2015 through January 6, 2016, which is the date these financial statements were available to be issued. The Organization has determined there are no subsequent events that require disclosure pursuant to accounting principles generally accepted in the United States of America.