



Virginia Beach Society for the Prevention of Cruelty to Animals

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

FINANCIAL REPORT

AUGUST 31, 2018



ASSURANCE, TAX & ADVISORY SERVICES

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

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INDEPENDENT AUDITOR'S REPORT

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

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 statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Virginia Beach Society for the Prevention of Cruelty to Animals as of August 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PBMares, LLP

Norfolk, Virginia
May 31, 2019

FINANCIAL STATEMENTS

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FINANCIAL POSITION

August 31, 2018

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 131,225
Accounts receivable, net	54,146
Inventory	37,810
Prepaid insurance and expenses	25,471
Total current assets	248,652
Property and Equipment, net	1,917,605
Other Assets	
Investments	3,072,605
Security deposit	2,460
Total other assets	3,075,065
Total assets	\$ 5,241,322
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 226,761
Accrued expenses	131,687
Deferred revenue	1,571
Line of credit	425,380
Capital lease, current portion	11,469
Total current liabilities	796,868
Long-Term Liabilities	
Capital lease, net of current portion	52,224
Total liabilities	849,092
Net Assets	
Unrestricted	4,354,325
Temporarily restricted	35,905
Permanently restricted	2,000
Total net assets	4,392,230
Total liabilities and net assets	\$ 5,241,322

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES

Year Ended August 31, 2018

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Change in Unrestricted Net Assets	
Support and revenue:	
Public veterinary clinic medical fees	\$ 1,525,708
Contributions	1,201,133
Adoptions	456,482
Special events, net of expenses	130,234
Retail sales	157,704
In-kind contributions	283,454
Humane education program fees	134,377
Grants	383
Miscellaneous	5,093
Investment income	281,770
Net assets released from restriction	214,524
Total unrestricted support and revenue	<u>4,390,862</u>
Expenses	
Program services	4,169,698
Supporting services, management and general	198,966
Supporting services, fundraising	703,447
Total expenses	<u>5,072,111</u>
Change in unrestricted net assets	<u>(681,249)</u>
Change in Temporarily Restricted Net Assets	
Contributions	47,891
Investment income	272
Grants	132,614
Net assets released from restriction	(214,524)
Change in temporarily restricted net assets	<u>(33,747)</u>
Change in net assets	<u>(714,996)</u>
Net Assets, beginning of year	<u>5,107,226</u>
Net Assets, end of year	<u><u>\$ 4,392,230</u></u>

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2018

	Program Services	Supporting Services		Total Functional Expenses
		Management and General	Fundraising	
Advertising and marketing	\$ 38,072	\$ -	\$ -	\$ 38,072
Animal care supplies	170,966	-	-	170,966
Animal medical care	720,225	-	-	720,225
Communications and IT	61,562	16,657	21,984	100,203
Cost of goods sold	96,296	-	-	96,296
Depreciation and amortization	179,082	-	-	179,082
Facilities	301,717	40,399	25,072	367,188
Fundraising expenses	-	-	150,471	150,471
Interest and portfolio fees	45,348	-	-	45,348
Legal and professional fees	48,599	49,675	12,573	110,847
Operation expenses	194,583	9,169	1,406	205,158
Processing and banking fees	33,942	558	21,059	55,559
Salaries and benefits	2,090,217	71,278	432,268	2,593,763
Staff training	5,171	6,251	1,411	12,833
Taxes and licensing	159,882	4,787	31,798	196,467
Transportation	24,036	192	5,405	29,633
Total expenses	\$ 4,169,698	\$ 198,966	\$ 703,447	\$ 5,072,111

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

Year Ended August 31, 2018

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Cash Flows From Operating Activities	
Change in net assets	\$ (714,996)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	179,082
Realized gains on investments	(280,488)
Unrealized losses on investments	69,590
Dividend and interest income reinvested	(71,144)
Change in operating assets and liabilities:	
Accounts receivable	9,644
Inventory	13,173
Prepaid insurance and expenses	(7,327)
Accounts payable	132,999
Deferred revenue	(6,835)
Accrued expenses	(18,302)
Net cash used in operating activities	<u><u>(694,604)</u></u>
Cash Flows From Investing Activities	
Purchases of property and equipment	(96,032)
Proceeds from sale of investments	855,550
Purchases of investments	(80,246)
Net cash provided by investing activities	<u><u>679,272</u></u>
Cash Flows From Financing Activities	
Repayments on line of credit	(657,523)
Borrowings on line of credit	595,000
Principal payments on capital lease obligation	(10,992)
Net cash used in financing activities	<u><u>(73,515)</u></u>
Net decrease in cash and cash equivalents	(88,847)
Cash and Cash Equivalents	
Beginning	<u>220,072</u>
Ending	<u><u>\$ 131,225</u></u>
Supplemental Disclosures of Cash Flow Information	
Cash paid during the year for interest	\$ 17,711
Supplemental Disclosure of Non-Cash Activities	
In-kind donations	\$ 283,454

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

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, not-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, temporarily restricted, and permanently restricted. The financial statements will report amounts separately by net asset class, when applicable, as follows:

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

Temporarily restricted - Amounts that are restricted by donors for specific purposes or future years. 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 that 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 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.

Cash and cash equivalents: Cash and cash equivalents includes all monies in banks and highly liquid investments with original maturity dates less than three months. 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, 2018, \$8,366 of 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. The allowance for doubtful accounts was \$17,104 at August 31, 2018.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Inventory: Inventory consists of pet supplies maintained and sold at the Organization's adoption center, shelter, and Happy Paws locations and is stated at the lower of cost (first-in/first-out) or net realizable value.

Investments: The Organization's investments are recorded at fair value. 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 investment income in the statement of activities. Fees related to the investments were \$25,803 in 2018. These fees are included within interest and portfolio fees expense in the accompanying statement of functional expenses.

Additional disclosures on investments have been included in Note 8.

Property and equipment: Property and equipment are stated at cost if purchased or fair value as of the date of gift if donated. Depreciation and amortization 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 more than one year are capitalized.

Functional allocation of expenses: The costs of providing various program services and supporting activities have been allocated on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting services benefitted based on various methodologies.

Advertising costs: The Organization expenses advertising costs as incurred. Total advertising expense for the year ended August 31, 2018 was \$38,072.

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 and is therefore exempt from federal and state income taxes, except on net income, if any, generated from unrelated business income.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Income Taxes*, 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, 2018.

The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date the returns are filed. Any interest and penalties incurred by the Organization in connection with its tax positions are included in the accompanying statement of functional expenses as interest and penalties expense, respectively.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Donated materials, services and facilities: Donated goods and services are recorded based on fair 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 an 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 year ended August 31, 2018, the Organization received \$283,454 in donated goods and services.

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 and the requirements for recognition in the financial statements have not been met; however, a substantial number of volunteers have donated significant amounts of their time in the Organization's programs and events.

Special events: Special events revenue is reported net of related expenses totaling \$147,156 for the year ended August 31, 2018.

New accounting pronouncements: In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. In ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This ASU requires a modified retrospective transition approach, which includes a number of optional practical expedients, described in ASU 2016-02, which may be applied. The ASU is effective for fiscal years beginning after December 15, 2019. The impact of the new standard has not been determined, however it is expected that there will be an increase in the Organization's assets and liabilities.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to improve financial reporting for a not-for-profit entity. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statement of activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early application is permitted. The ASU should be applied on a retrospective basis in the year that the ASU is first applied. While this ASU will change the presentation of the Organization's financial statements it is not expected to alter the Organization's reported financial position or activities.

In June 2018, FASB issued ASU 2018-08 Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(often conditional contributions) than under current GAAP. This ASU is effective for years beginning after December 31, 2018. The Organization is currently evaluating the effect that this guidance will have on the financial statements.

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. To allow entities additional time to implement systems, gather data and resolve implementation questions, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers – Deferral of the Effective Date*, in August 2015, to defer the effective date of ASU No. 2014-09 for one year. The updated standard will be effective for years beginning after December 15, 2018. The Organization is currently evaluating the effect that the updated standard will have on the financial statements.

Note 2. Property and Equipment

A summary of property and equipment follows:

Land	\$ 121,264
Buildings	1,134,504
Furniture, fixtures and equipment	978,900
Building improvements	651,610
Building expansion	1,629,432
Construction in progress	47,103
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	4,562,813
Less accumulated depreciation	2,645,208
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	\$ 1,917,605
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Note 3. Capital Lease

The Organization is the lessee of equipment under a capital lease. The asset and liability under the capital lease are recorded at the lower of present value of the minimum lease payments or the fair value of the asset. Amortization of the asset under the capital lease is included in depreciation and amortization expense for the fiscal year 2018.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Lease (Continued)

Following is a summary of property held under capital lease:

ProCyte Dx Analyzer	\$ 79,129
Accumulated depreciation	<u>(19,956)</u>
	<u><u>\$ 59,173</u></u>

Minimum future lease payments under the capital lease as of August 31, 2018 are as follows:

2019	\$ 13,954
2020	13,954
2021	13,954
2022	13,954
2023	13,954
Thereafter	<u>1,163</u>
Net minimum lease payments	70,933
Amount representing interest	<u>(7,240)</u>
Present value of net minimum lease payments	63,693
Less current portion	<u>(11,469)</u>
Long-term portion of lease payments	<u><u>\$ 52,224</u></u>

The interest rate on the capitalized lease was 4.25% 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.

Note 4. Lease Commitments

The Organization 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 an adoption center. The lease provided for an annual base rent of \$29,520 with annual escalations of 3% and the initial term expired in 2017. The lease provided for renewals and was terminated at the end of February 2019. On September 1, 2016, the Organization assumed the lease for the Happy Paws training facility. The lease provided for an annual base rent of \$33,300 with annual escalations of 3% and the initial term expired in February 2018. The lease provides for up to five automatic renewals of one year each with the current renewal expiring at the end of September 2019. During fiscal year 2018, the related lease expenses were \$103,121.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 4. Lease Commitments (Continued)

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

Year	Amount
2019	\$ 93,601
2020	37,911
2021	32,748
2022	23,152
2023	4,991
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	\$ 192,403
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Note 5. Concentrations

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) provides insurance up to \$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, 2018, the Organization did not have any amounts which exceeded these insured amounts.

The Organization's revenue sources and accounts receivable are concentrated as most of the customers and donors are located in the same geographic region.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2018 included amounts restricted for the following:

Unexpended contributions and interest for education purposes	\$ 18,837
Unexpended grant for equipment and leasehold improvements	16,691
Unexpended investment income for future years	<hr/> 377
Total temporarily restricted net assets	<hr/> <hr/> \$ 35,905

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 7. Net Assets Released From Restriction

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 year ended August 31, 2018 include the following:

Amounts expended for humane education	\$ 25,860
Amounts expended for senior dogs	7,500
Amounts expended for purchase of equipment and leasehold improvements	116,635
Amounts expended for animal medical care	6,514
Amounts expended for care of shelter dogs	1,000
Amounts expended for various designated expenses	56,998
Amounts expended for investment fees	<u>17</u>
Total net assets released from restriction	<u><u>\$ 214,524</u></u>

Note 8. Investments

The Organization records certain assets at fair value on a recurring basis. Fair value is the 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: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs used in the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 8. 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, 2018:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate bonds	\$ -	\$ 680,842	\$ -	\$ 680,842
Mutual funds - cash equivalents	63,048	-	-	63,048
Common stocks	2,261,896	-	-	2,261,896
U.S. Treasury obligations	54,936	-	-	54,936
Funds held in trust by others	-	-	11,883	11,883
	<u>\$ 2,379,880</u>	<u>\$ 680,842</u>	<u>\$ 11,883</u>	<u>\$ 3,072,605</u>

The following table summarizes the changes to Level 3 instruments:

	Funds Held in Trust by Others
Fair value, beginning of the year	\$ 9,997
Change in value	1,886
Fair value, end of the year	<u>\$ 11,883</u>

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:

Common stocks, mutual funds and U.S. Treasury obligations - Consist of investments valued based on quoted market prices in active markets (Level 1).

Corporate bonds - Consist of investments valued based on observable inputs including quoted prices in active markets for similar assets, quoted prices for identical or similar assets in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market (Level 2).

Funds held in trust by others – Consist 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).

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 8. Investments (Continued)

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 statement of activities.

Investment income included the following:

	Year ended August 31, 2018		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 71,055	\$ 89	\$ 71,144
Unrealized losses	(69,529)	(61)	(69,590)
Realized gains	280,244	244	280,488
Total	\$ 281,770	\$ 272	\$ 282,042

Note 9. 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.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 9. Permanently Restricted Net Assets (Continued)

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 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 year ended August 31, 2018, the Organization had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Asset
Balance as of August 31, 2017	\$ -	\$ 744	\$ 2,000	\$ 2,744
Investment income	-	182	-	182
Amounts appropriated for expenditure	17	(17)	-	-
Fund expense - investment fees	(17)	-	-	(17)
Balance as of August 31, 2018	<u>\$ -</u>	<u>\$ 909</u>	<u>\$ 2,000</u>	<u>\$ 2,909</u>

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 10. Line of Credit

The Organization has a revolving line of credit with TowneBank for \$500,000 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 *Wall Street Journal* Prime Rate with a minimum rate of 5.25%. The balance on the line of credit was \$425,380 at August 31, 2018. The line is collateralized by all assets, described in a security agreement executed between the Organization and TowneBank.

Note 11. Related Party Transactions

The Organization's related party transactions during the year ended August 31, 2018 were related to contributions by members of the Board of Directors and receivables from employees (as previously disclosed in Note 1).

During the year ended August 31, 2018, the Organization received \$43,430 in contributions from Board members. Additionally, various Board members provided pro bono legal advice and services to the Organization during 2018.

Note 12. Subsequent Events

The Organization has evaluated all events subsequent to August 31, 2018 through May 31, 2019, which is the date these financial statements were available to be issued. The Organization has determined that there are no subsequent events that require disclosure pursuant to accounting principles generally accepted in the United States of America.