



Virginia Beach Society for the Prevention of Cruelty to Animals

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

FINANCIAL REPORT

AUGUST 31, 2019



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 statements of financial position as of August 31, 2019 and 2018, 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 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, 2019 and 2018, 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.

PBMares, LLP

Norfolk, Virginia
September 23, 2020

FINANCIAL STATEMENTS

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENTS OF FINANCIAL POSITION

August 31, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 177,604	\$ 131,225
Accounts receivable, net	44,440	54,146
Inventory	19,823	37,810
Prepaid insurance and expenses	31,547	25,471
Total current assets	273,414	248,652
Property and Equipment, net	1,828,587	1,917,605
Other Assets		
Investments	2,346,101	3,072,605
Security deposit	-	2,460
Total other assets	2,346,101	3,075,065
Total assets	\$ 4,448,102	\$ 5,241,322
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 218,973	\$ 226,761
Accrued expenses	148,950	131,687
Deferred revenue	1,571	1,571
Line of credit	499,715	425,380
Capital lease, current portion	11,966	11,469
Total current liabilities	881,175	796,868
Long-Term Liabilities		
Capital lease, net of current portion	40,258	52,224
Total liabilities	921,433	849,092
Net Assets		
Without donor restrictions	3,467,743	4,354,325
With donor restrictions	58,926	37,905
Total net assets	3,526,669	4,392,230
Total liabilities and net assets	\$ 4,448,102	\$ 5,241,322

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENTS OF ACTIVITIES
Years Ended August 31, 2019 and 2018

	2019	2018
Change in Net Assets Without Donor Restrictions		
Support and revenue:		
Public veterinary clinic medical fees	\$ 1,611,927	\$ 1,525,708
Contributions	1,219,201	1,201,133
Adoptions	435,592	456,482
Special events, net of expenses	121,879	130,234
Retail sales	152,193	157,704
In-kind contributions	299,910	283,454
Humane education program fees	42,546	134,377
Grants	-	383
Miscellaneous	19,008	5,093
Investment income	134,003	281,770
Net assets released from restriction	168,449	214,524
Total support and revenue without donor restrictions	4,204,708	4,390,862
Expenses		
Program services	4,767,342	4,169,698
Supporting services, management and general	116,699	198,966
Supporting services, fundraising	207,249	703,447
Total expenses	5,091,290	5,072,111
Change in net assets without donor restrictions	(886,582)	(681,249)
Change in Net Assets With Donor Restrictions		
Contributions	19,680	47,891
Investment income	213	272
Grants	169,577	132,614
Net assets released from restriction	(168,449)	(214,524)
Change in net assets with donor restrictions	21,021	(33,747)
Change in net assets	(865,561)	(714,996)
Net Assets, beginning of year	4,392,230	5,107,226
Net Assets, end of year	\$ 3,526,669	\$ 4,392,230

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2019

	Program Services	Supporting Services		Total Functional Expenses
		Management and General	Fundraising	
Advertising and marketing	\$ 193,594	\$ -	\$ -	\$ 193,594
Animal care supplies	733,217	-	-	733,217
Animal medical care	146,559	-	-	146,559
Communications and IT	65,198	17,840	22,864	105,902
Cost of goods sold	121,431	-	-	121,431
Depreciation and amortization	181,879	-	-	181,879
Facilities	329,324	8,191	22,218	359,733
Fundraising expenses	-	-	13,480	13,480
Interest and portfolio fees	47,951	-	-	47,951
Legal and professional fees	108,939	29,095	3,871	141,905
Operation expenses	317,546	8,299	19,666	345,511
Processing and banking fees	31,543	310	11,122	42,975
Salaries and benefits	2,246,389	44,952	102,394	2,393,735
Staff training	30,989	3,919	1,357	36,265
Taxes and licenses	178,223	3,460	7,618	189,301
Transportation	34,560	633	2,659	37,852
Total expenses	\$ 4,767,342	\$ 116,699	\$ 207,249	\$ 5,091,290

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 licenses	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

STATEMENTS OF CASH FLOWS Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (865,561)	\$ (714,996)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	181,879	179,082
Realized gains on investments	(325,255)	(280,488)
Unrealized losses on investments	252,478	69,590
Dividend and interest income reinvested	(61,439)	(71,144)
Change in operating assets and liabilities:		
Accounts receivable	9,706	9,644
Inventory	17,987	13,173
Prepaid insurance and expenses	(6,076)	(7,327)
Accounts payable	(7,788)	132,999
Deferred revenue	-	(6,835)
Accrued expenses	17,263	(18,302)
Security deposit	2,460	-
Net cash used in operating activities	(784,346)	(694,604)
Cash Flows from Investing Activities		
Purchases of property and equipment	(92,861)	(96,032)
Proceeds from sale of investments	1,486,787	855,550
Purchases of investments	(626,067)	(80,246)
Net cash provided by investing activities	767,859	679,272
Cash Flows from Financing Activities		
Repayments on line of credit	(43,165)	(657,523)
Borrowings on line of credit	117,500	595,000
Principal payments on capital lease obligation	(11,469)	(10,992)
Net cash provided by (used in) financing activities	62,866	(73,515)
Net increase (decrease) in cash and cash equivalents	46,379	(88,847)
Cash and Cash Equivalents		
Beginning	131,225	220,072
Ending	\$ 177,604	\$ 131,225
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 27,140	\$ 17,711
Supplemental Disclosure of Non-Cash Activities		
In-kind donations	299,910	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 with regard 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 two classes of net assets that are based upon the existence or absence of donor restrictions: net assets with donor restrictions and net assets without donor restrictions. Support that is restricted by the donor is however, reported as an increase in net assets without donor restrictions if the restriction expires or is otherwise satisfied in the reporting period in which the support is recognized. All other donor-restricted support is report as an increase in net assets with donor restrictions. When a restriction expires or is otherwise satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and presented as "net assets released from restriction" in the accompanying statements of activities.

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, 2019 and 2018, \$3,024 and \$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 \$8,255 and \$17,104 at August 31, 2019 and 2018, respectively.

Inventory: Inventory consists of pet supplies maintained and sold 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 statements of activities. Fees related to the investments were \$17,790 and \$25,803 in 2019 and 2018, respectively. These fees are included within interest and portfolio fees expense in the accompanying statements of functional expenses.

Additional disclosures on investments have been included in Note 9.

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)

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.

Revenue recognition: Revenue derived from exchange transactions such as clinic fees, adoptions, retail sales, and program fees are recognized when services are performed or products are provided. Contributions and grants are recognized as revenue when received or when an unconditional promise to give is made.

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

Advertising costs: The Organization expenses advertising costs as incurred. Total advertising expense for the years ended August 31, 2019 and 2018 was \$193,594 and \$38,072, respectively.

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, 2019.

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 statements of functional expenses as interest and penalties expense, respectively.

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. These contributed goods and services are reflected in the accompanying financial statements as in-kind contributions 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, 2019 and 2018, the Organization received \$299,910 and \$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.

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)

Special events: Special events revenue is reported net of related expenses totaling \$121,879 and \$130,234 for the years ended August 31, 2019 and 2018, respectively.

Adoption of accounting standard: During the year ended August 31, 2019, the Organization adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

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, 2021. 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 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 (often conditional contributions) than under current accounting principles generally accepted in the United States of America (U.S. GAAP). This ASU is effective for years beginning after December 31, 2019. The Organization is currently evaluating the effect that this guidance will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, as it is considered in current guidance. The Organization will also need to apply new guidance to determine whether revenue should be recognized over time or at a point in time. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year. ASU 2014-09, as deferred by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period

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)

presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. In June 2020, FASB issued ASU 2020-05 which defers the effective date of this guidance for an additional year to annual reporting periods beginning after December 15, 2019. The Organization has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the financial statements.

Note 2. Liquidity and Availability

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of August 31, 2019, the following financial assets and liquidity resources without donor or other restrictions are available to meet annual operating needs of the 2020 fiscal year.

Financial assets:

Cash and cash equivalents	\$ 177,604
Accounts receivable	44,440
Investments	2,346,101
Total financial assets available within one year	<u>2,568,145</u>

Liquidity resources:

Bank line of credit	<u>285</u>
Total financial assets and liquidity resources available within one year	<u><u>\$ 2,568,430</u></u>

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, investments, and a line of credit of \$500,000. See Note 11 for information about the Organization's line of credit.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 3. Property and Equipment

A summary of property and equipment follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 121,264	\$ 121,264
Buildings	1,134,504	1,134,504
Furniture, fixtures and equipment	1,100,024	978,900
Building improvements	670,450	651,610
Building expansion	1,629,432	1,629,432
Construction in progress	-	47,103
	<u>4,655,674</u>	<u>4,562,813</u>
Less accumulated depreciation	<u>2,827,087</u>	<u>2,645,208</u>
	<u>\$ 1,828,587</u>	<u>\$ 1,917,605</u>

Note 4. 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 years 2019 and 2018.

Following is a summary of property held under capital lease:

	<u>2019</u>	<u>2018</u>
ProCyte Dx Analyzer	\$ 79,129	\$ 79,129
Accumulated depreciation	<u>(28,260)</u>	<u>(16,956)</u>
	<u>\$ 50,869</u>	<u>\$ 62,173</u>

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Lease (Continued)

Minimum future lease payments under the capital lease as of August 31, 2019 are as follows:

Year	Amount
2020	\$ 13,954
2021	13,954
2022	13,954
2023	13,954
2024	1,163
Net minimum lease payments	56,979
Amount representing interest	(4,755)
Present value of net minimum lease payments	52,224
Less current portion	(11,966)
Long-term portion of lease payments	\$ 40,258

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 5. Lease Commitments

The Organization leases copier and postage meter equipment under non-cancellable 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 following the closure of the adoption center. On September 1, 2016, the Organization assumed the lease for the Happy Paws training facility. The lease provides 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 most recent renewal expiring at the end of September 2019. Due to the closure of the Happy Paws training facility, the lease was not renewed for an additional year. During fiscal years 2019 and 2018, the related lease expenses were \$86,233 and \$103,121, respectively.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 5. Lease Commitments (Continued)

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

<u>Year</u>	<u>Amount</u>
2020	\$ 43,628
2021	23,830
2022	16,532
2023	1,936
2024	1,613
	<u>\$ 87,539</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) 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, 2019 and 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.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2019 and 2018 included amounts restricted for the following:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Unexpended contributions and interest for education purposes	\$ 17,415	\$ 18,305
Unexpended grant for equipment and leasehold improvements	38,389	16,691
Unexpended investment income for future years	1,122	909
Total	56,926	35,905
Endowment fund restricted in perpetuity	<u>2,000</u>	<u>2,000</u>
Total net assets with donor restrictions	\$ 58,926	\$ 37,905

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 8. 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 years ended August 31, 2019 and 2018 include the following:

	<u>2019</u>	<u>2018</u>
Amounts expended for humane education	\$ 992	\$ 25,860
Amounts expended for senior dogs	20,000	7,500
Amounts expended for purchase of equipment and leasehold improvements	97,942	116,635
Amounts expended for animal medical care	2,000	6,514
Amounts expended for care of shelter dogs	-	1,000
Amounts expended for various designated expenses	47,500	56,998
Amounts expended for investment fees	15	17
Total net assets released from restriction	\$ 168,449	\$ 214,524

Note 9. 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 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, 2019 and 2018:

	August 31, 2019			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate bonds	\$ -	\$ 587,776	\$ -	\$ 587,776
Mutual funds - cash equivalents	95,389	-	-	95,389
Common stocks	1,517,639	-	-	1,517,639
U.S. Treasury obligations	144,053	-	-	144,053
Funds held in trust by others	-	-	1,244	1,244
	\$ 1,757,081	\$ 587,776	\$ 1,244	\$ 2,346,101

	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
	\$ 2,379,880	\$ 680,842	\$ 11,883	\$ 3,072,605

The following table summarizes the changes to Level 3 instruments:

	2019	2018
	Funds Held in Trust by Others	Funds Held in Trust by Others
Fair value, beginning of the year	\$ 11,883	\$ 9,997
Change in value	(10,639)	1,886
Fair value, end of the year	\$ 1,244	\$ 11,883

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 9. Investments (Continued)

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).

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, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 61,387	\$ 52	\$ 61,439
Unrealized gains (losses)	(170,189)	114	(170,075)
Realized gains	242,805	47	242,852
Total	\$ 134,003	\$ 213	\$ 134,216

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 9. Investments (Continued)

	Year ended August 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	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 10. Endowments

The Organization has received to date a \$2,000 contribution that is a donor-restricted endowment. 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 U.S. 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 the fair value of assets held as donor-restricted endowment as net assets with donor restrictions, 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 U.S. GAAP, deficiencies of this nature would be reported in net assets with donor restrictions. As of August 31, 2019 and 2018, no such deficiencies existed.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 10. Endowments (Continued)

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 years ended August 31, 2019 and 2018, the Organization had the following endowment-related activity and net asset balances:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance as of August 31, 2018	\$ -	\$ 2,909	\$ 2,909
Investment income	-	228	228
Amounts appropriated for expenditure	15	(15)	-
Fund expense - investment fees	(15)	-	(15)
Balance as of August 31, 2019	\$ -	\$ 3,122	\$ 3,122
Balance as of August 31, 2017	\$ -	\$ 2,744	\$ 2,744
Investment income	-	182	182
Amounts appropriated for expenditure	17	(17)	-
Fund expense - investment fees	(17)	-	(17)
Balance as of August 31, 2018	\$ -	\$ 2,909	\$ 2,909

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 11. 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 \$499,715 and \$425,380 at August 31, 2019 and 2018, respectively. The line is collateralized by all assets, described in a security agreement executed between the Organization and TowneBank. Subsequent to August 31, 2019, the line of credit was renewed and matures on March 31, 2021.

Note 12. Related Party Transactions

The Organization's related party transactions during the years ended August 31, 2019 and 2018 were related to contributions by members of the Board of Directors and receivables from employees (as previously disclosed in Note 1).

During the years ended August 31, 2019 and 2018, the Organization received \$31,214 and \$43,430 in contributions from Board members, respectively. Additionally, various Board members provided pro bono legal advice and services to the Organization during 2019 and 2018.

Note 13. Risk and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization. Subsequent to year end, the Organization did receive a Payroll Protection Program loan totaling \$507,100.

Note 14. Subsequent Events

The Organization has evaluated all events subsequent to August 31, 2019 through September 23, 2020, which is the date these consolidated financial statements were available to be issued. Management has determined, except as disclosed above in Note 11 and Note 13, that there are no subsequent events that are required to be disclosed pursuant to the FASB ASC.