



Virginia Beach Society for the Prevention of Cruelty to Animals

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

FINANCIAL REPORT

DECEMBER 31, 2022



ASSURANCE, TAX & ADVISORY SERVICES

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the 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 December 31, 2022, the related statements of activities, functional expenses, and cash flows for the 16-month period then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the results of its operations and its cash flows for the 16-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization changed its fiscal year end from August 31 to December 31. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PBMares, LLP

Newport News, Virginia
June 28, 2023

FINANCIAL STATEMENTS

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 481,413
Accounts receivable	44,024
Inventory	27,004
Prepaid insurance and expenses	51,287
Total current assets	603,728
Property and Equipment, net	1,719,597
Other Assets	
Investments	2,322,047
Total assets	\$ 4,645,372
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 124,836
Accrued expenses	266,185
Deferred revenue	2,622
Total current liabilities	393,643
Net Assets	
Without donor restrictions	3,932,621
With donor restrictions	319,108
Total net assets	4,251,729
Total liabilities and net assets	\$ 4,645,372

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES 16-Month Period Ended December 31, 2022

Change in Net Assets Without Donor Restrictions	
Support and revenue:	
Public veterinary clinic medical fees	\$ 2,719,614
Contributions	2,137,630
Adoptions	576,410
Special events, net of expenses	241,489
Retail sales	49,188
In-kind contributions	402,100
Miscellaneous	6,270
Investment losses, net	(323,558)
Net assets released from restriction	197,765
Total support and revenue without donor restrictions	6,006,908
Expenses:	
Program services	5,634,989
Supporting services, management and general	315,000
Supporting services, fundraising	623,548
Total expenses	6,573,537
Change in net assets without donor restrictions	(566,629)
Change in Net Assets With Donor Restrictions	
Investment losses, net	(296)
Grants	448,213
Net assets released from restriction	(197,765)
Change in net assets with donor restrictions	250,152
Change in net assets	(316,477)
Net Assets, beginning of period	4,568,206
Net Assets, end of period	<u><u>\$ 4,251,729</u></u>

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

16-Month Period Ended December 31, 2022

	Program Services	Supporting Services		Total Functional Expenses
		Management and General	Fundraising	
Advertising and marketing	\$ 350,036	\$ -	\$ -	\$ 350,036
Animal care supplies	165,998	-	-	165,998
Animal medical care	1,218,723	-	-	1,218,723
Communications and IT	65,486	5,443	26,454	97,383
Cost of goods sold	29,238	-	-	29,238
Depreciation and amortization	164,371	22,632	30,291	217,294
Facilities	302,293	41,622	55,708	399,623
Fundraising expenses	-	-	11,182	11,182
Interest and portfolio fees	18,862	2,597	3,476	24,935
Legal and professional fees	134,539	11,078	15,415	161,032
Operation expenses	72,521	3,318	4,441	80,280
Processing and banking fees	56,037	7,716	10,327	74,080
Salaries and benefits	2,772,009	207,870	429,852	3,409,731
Staff training	45,375	1,842	4,842	52,059
Taxes and licenses	213,230	10,882	31,560	255,672
Transportation	26,271	-	-	26,271
Total expenses	\$ 5,634,989	\$ 315,000	\$ 623,548	\$ 6,573,537

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS 16-Month Period Ended December 31, 2022

Cash Flows from Operating Activities	
Change in net assets	\$ (316,477)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	217,294
Realized and unrealized losses on investments	391,747
Dividend and interest income reinvested	(67,893)
Change in operating assets and liabilities:	
Accounts receivable	19,623
Bequests receivable	994,000
Inventory	9,967
Prepaid insurance and expenses	(22,390)
Accounts payable	(58,300)
Deferred revenue	(35,392)
Accrued expenses	55,880
Net cash provided by operating activities	<u>1,188,059</u>
Cash Flows from Investing Activities	
Purchases of property and equipment	(184,428)
Purchases of investments	(280,129)
Net cash used in investing activities	<u>(464,557)</u>
Cash Flows from Financing Activities	
Repayments on lines of credit	(726,215)
Borrowings on lines of credit	300,000
Net cash used in financing activities	<u>(426,215)</u>
Net increase in cash and cash equivalents	297,287
Cash and Cash Equivalents	
Beginning	<u>184,126</u>
Ending	<u>\$ 481,413</u>
Supplemental Disclosures of Cash Flow Information	
Cash paid during the year for interest	\$ 5,224
Supplemental Disclosure of Non-Cash Activities	
In-kind donations	402,100

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.

Fiscal year change: Effective with the fiscal year beginning September 1, 2021, the Organization changed from a fiscal year end of August 31 to a calendar year end of December 31. A 16-month period from September 1, 2021 through December 31, 2022 is presented in these financial statements to transition to the new calendar year cycle.

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 reported 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 statement 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 December 31, 2022, \$4,808 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. No allowance was deemed necessary at December 31, 2022.

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 statement of activities. Fees related to the investments were \$19,711 during the 16-month period ended December 31, 2022. 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 6.

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 public veterinary clinic medical fees, adoptions and retail sales are recognized at a point in time 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.

Contributions are considered to be available for use without donor restrictions, unless they are specifically restricted by the donor. Contributions are recognized as income, at their fair value, when received or when an unconditional promise to give is received. Contributions of tangible assets are recorded at fair value at the date of gift. Conditional contributions and promises to give are recorded as revenue when the conditions on which they depend have been substantially met. Bequests are recorded as income when notification of an irrevocable right to receive such assets exists and when a fair value can reasonably be determined.

Adoptions and public veterinary clinic medical fee revenues are primarily recognized at a point in time when services are delivered. The Organization enters into various grant agreements. Revenue relating to these agreements is recognized in accordance with the terms and conditions included therein. Grants are evaluated to determine if they represent an exchange transaction or contribution. If determined to be an exchange transaction, the grant is recognized as expenses are incurred.

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 activities. The statement of functional expenses presents the natural classification detail of expenses by function. 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 16-month period ended December 31, 2022 was \$350,036.

Income taxes: The Organization 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 December 31, 2022.

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)

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.

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.

For the 16 months ended December 31, 2022, donated goods and services recognized in the statement of activities included the following:

Advertising and marketing	\$ 197,709
Animal care supplies	162,085
Legal and professional fees	22,095
Special events expenses	14,578
Medical equipment	2,420
Other operating expenses	<u>3,213</u>
Total donated goods and services	<u><u>\$ 402,100</u></u>

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 \$207,587 during the 16-month period ended December 31, 2022.

Adopted accounting pronouncements: During the 16-month period ended December 31, 2022, the Organization adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The adoption of this guidance did not have a significant impact on the Organization's financial statements.

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO 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 December 31, 2022, the following financial assets and liquidity resources without donor or other restrictions are available to meet annual operating needs of the Organization.

Financial assets:

Cash and cash equivalents	\$	481,413
Accounts receivable		44,024
Investments		2,322,047
Less net assets with donor restrictions		<u>(319,108)</u>
Total financial assets available within one year		2,528,376

Liquidity resources:

Bank line of credit		<u>750,000</u>
Total financial assets and liquidity resources available within one year	\$	<u>3,278,376</u>

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, investments, and line of credit. See Note 7 for information about the Organization's line of credit.

Note 3. Property and Equipment

A summary of property and equipment follows:

Land	\$	121,264
Buildings		1,134,504
Furniture, fixtures and equipment		1,221,407
Building improvements		923,567
Building expansion		<u>1,629,432</u>
		5,030,174
Less accumulated depreciation		<u>3,310,577</u>
	\$	<u>1,719,597</u>

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 4. 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.

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 5. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2022 included amounts restricted for the following:

Subject to expenditure for specified purpose:

Unexpended contributions and interest for education purposes	\$ 17,869
Unexpended grant for public clinic operations	197,790
Unexpended grant for property and equipment	100,000
Unexpended investment income for future years	<u>1,449</u>
Total	317,108
Endowment fund restricted in perpetuity	<u>2,000</u>
Total net assets with donor restrictions	<u>\$ 319,108</u>

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 16-month period ended December 31, 2022 include the following:

Amounts expended for senior dogs	\$ 8,342
Amounts expended for property and equipment	105,000
Amounts expended for adoption subsidies	42,613
Amounts expended for shelter operations	39,000
Amounts expended for various designated expenses	<u>2,810</u>
Total net assets released from restriction	<u>\$ 197,765</u>

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 6. 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.

The following table presents the financial instruments carried at fair value based on the ASC Topic 820 valuation hierarchy as of December 31, 2022:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate Bonds	\$ -	\$ 775,278	\$ -	\$ 775,278
Mutual Funds - cash equivalents	66,116	-	-	66,116
Common Stocks	1,472,063	-	-	1,472,063
U.S. Treasury Obligations	8,590	-	-	8,590
	<u>\$ 1,546,769</u>	<u>\$ 775,278</u>	<u>\$ -</u>	<u>\$ 2,322,047</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).

VIRGINIA BEACH SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 6. 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 and unrealized gains (losses), dividends and interest is included in the statement of activities.

Investment losses included the following:

	16-Month Period Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 67,835	\$ 58	\$ 67,893
Realized and unrealized losses, net	(391,393)	(354)	(391,747)
Total	\$ (323,558)	\$ (296)	\$ (323,854)

Note 7. Line of Credit

The Organization has a revolving line of credit with TowneBank for \$750,000 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 3.25%. The interest rate was 7.0% at December 31, 2022. There were no amounts outstanding on the line of credit at December 31, 2022. The line is collateralized by all assets, described in a security agreement executed between the Organization and TowneBank.

Note 8. Related Party Transactions

The Organization's related party transactions during the 16-month period ended December 31, 2022 were related to contributions by members of the Board of Directors and receivables from employees (as previously disclosed in Note 1).

During the 16-month period ended December 31, 2022, the Organization received \$41,919 in contributions from Board members. Additionally, various Board members provided pro bono legal advice and other services to the Organization during the 16-month period ended December 31, 2022.

Note 9. Subsequent Events

The Organization has evaluated all events subsequent to December 31, 2022 through June 28, 2023, which is the date these financial statements were available to be issued. Management has determined that there are no subsequent events that are required to be disclosed pursuant to the FASB ASC.