

**SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF
ANNE ARUNDEL COUNTY, MARYLAND, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2016**

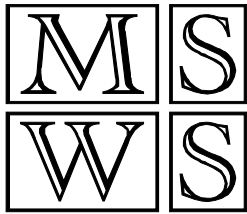


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
Annapolis, Maryland

We have audited the accompanying financial statements of Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc. (a non-profit Organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities 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.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.

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 Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc.'s 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
May 17, 2017

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS		2016	2015
CURRENT ASSETS			
Cash and cash equivalents		\$ 1,121,007	\$ 1,472,671
Investments		2,618,951	1,869,086
Inventory		4,479	7,303
Contributions receivable		328,500	110,779
Prepaid expenses		378	1,085
Total current assets		4,073,315	3,460,924
ENDOWMENT INVESTMENTS			
Cash and cash equivalents		68,941	43,086
Investments		1,936,294	1,873,682
Total endowment investments		2,005,235	1,916,768
PROPERTY AND EQUIPMENT			
Net of accumulated depreciation		499,848	619,225
Total assets		\$ 6,578,398	\$ 5,996,917
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses		\$ 32,348	\$ 25,425
Accrued salaries		11,796	35,966
Accrued vacation		10,011	10,629
Capital lease obligations		1,079	742
Total current liabilities		55,234	72,762
LONG-TERM LIABILITIES			
Capital lease obligations		1,267	2,346
Total liabilities		56,501	75,108
NET ASSETS			
Unrestricted		3,667,945	3,152,286
Unrestricted, Board designated		541,476	541,476
Temporarily restricted		399,050	364,123
Permanently restricted		1,913,426	1,863,924
Total net assets		6,521,897	5,921,809
Total liabilities and net assets		\$ 6,578,398	\$ 5,996,917

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

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016
With Summarized Financial Information for the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
REVENUES					
Contributions	\$ 1,434,579	\$ 13,342	\$ -	\$ 1,447,921	\$ 1,299,612
Shelter and spay and neuter clinic	304,251	-	-	304,251	319,876
Donated services and materials	159,345	-	-	159,345	121,840
Special events, net of direct expenses	135,978	-	-	135,978	182,361
Interest and dividends	65,285	52,526	4,564	122,375	149,800
Unrealized/realized gain/(loss) on investments, net of direct expenses	(8,788)	31,752	44,938	67,902	(242,933)
Grants	29,770	-	-	29,770	98,398
Merchandise sales, net of direct expenses	19,557	-	-	19,557	25,171
Other income	150	-	-	150	400
	<u>2,140,127</u>	<u>97,620</u>	<u>49,502</u>	<u>2,287,249</u>	<u>1,954,525</u>
Net assets released from restriction	62,693	(62,693)	-	-	-
Total revenues	<u>2,202,820</u>	<u>34,927</u>	<u>49,502</u>	<u>2,287,249</u>	<u>1,954,525</u>
EXPENSES					
Program services					
Shelter	878,640	-	-	878,640	934,806
Spay and neuter clinic	288,556	-	-	288,556	247,301
Donated services	159,345	-	-	159,345	121,840
Total program expenses	<u>1,326,541</u>	<u>-</u>	<u>-</u>	<u>1,326,541</u>	<u>1,303,947</u>
Supporting services					
Management and general	203,118	-	-	203,118	177,240
Fundraising	57,381	-	-	57,381	94,807
Total supporting services	<u>260,499</u>	<u>-</u>	<u>-</u>	<u>260,499</u>	<u>272,047</u>
Total expenses	<u>1,587,040</u>	<u>-</u>	<u>-</u>	<u>1,587,040</u>	<u>1,575,994</u>
Change in net assets before other changes	615,780	34,927	49,502	700,209	378,531
OTHER CHANGES					
Change in fair value of assets due to impairment	(100,121)	-	-	(100,121)	-
Change in net assets	<u>515,659</u>	<u>34,927</u>	<u>49,502</u>	<u>600,088</u>	<u>378,531</u>
NET ASSETS AT BEGINNING OF YEAR	<u>3,693,762</u>	<u>364,123</u>	<u>1,863,924</u>	<u>5,921,809</u>	<u>5,543,278</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,209,421</u>	<u>\$ 399,050</u>	<u>\$ 1,913,426</u>	<u>\$ 6,521,897</u>	<u>\$ 5,921,809</u>

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

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 600,088	\$ 378,531
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,481	48,584
Unrealized/realized gain/(loss) on investments	(67,902)	242,933
Loss on impairment	100,121	-
(Increase) decrease in operating assets:		
Inventory	2,824	(6,577)
Contributions receivable	(217,721)	157,178
Prepaid expenses	707	11
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	6,923	(28,875)
Accrued salaries	(24,170)	506
Accrued vacation	(618)	(3,077)
	444,733	789,214
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and reinvested income	(949,828)	(485,208)
Proceeds from sale of investments	179,398	79,859
Purchase of property and equipment	(25,225)	(893)
	(795,655)	(406,242)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(742)	(510)
	(742)	(510)
Net change in cash and cash equivalents	(351,664)	382,462
Cash and cash equivalents at beginning of year	1,472,671	1,090,209
Cash and cash equivalents at end of year	\$ 1,121,007	\$ 1,472,671
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 1,077	\$ 1,287

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

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland, Inc. (“The Society”) is a not-for-profit Corporation organized under the general corporate laws of Maryland. The Society’s stated purpose is to provide a broad range of services to meet the needs of animals and provide education about animals to the community.

Basis of Accounting

The Society prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society’s financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restriction. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Unexpended grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered conditional promises to give.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Society considers all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with original maturities of ninety days or less to be cash equivalents except those that are part of an investment portfolio.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Non-Cash Donations

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated market value at the date of donation.

Investments

Investments in marketable securities are stated at current market value. The net realized and unrealized appreciation (depreciation) in market value of investments is reflected in the statement of activities.

Property and Equipment

Property and equipment acquisitions over \$500 are capitalized and recorded at cost, when purchased, or if donated, at their estimated fair market value at the date of donation. All expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the depreciable assets.

Inventory

Inventory is comprised of merchandise for sale and is carried at cost.

Accrued Vacation

Employees of the Society are entitled to paid vacation depending on the length of service and job classification. Vacation benefits due to employees as of December 31, 2016 and 2015 were \$10,011 and \$10,629, respectively.

Advertising Costs

The Society expenses advertising costs when incurred. Amounts charged to expense for the years ended December 31, 2016 and 2015 were \$3,506 and \$1,144, respectively.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Income Taxes

The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Society is exempt from paying federal income tax on any income except unrelated business income. There is no provision for income taxes as the Society had no unrelated business income.

Income Tax Positions

The Society follows the guidance of ASC 740-10, “*Accounting for Uncertainty in Income Taxes*” which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Society’s financial statements.

The Society analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Society does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Society’s financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after December 31, 2013 remain subject to examination by federal and state authorities.

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

Note 2 - Concentration of Cash Balances

At December 31, 2016 and 2015 and at various times during the years then ended, the Society maintained cash-in-bank balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016 and 2015, amounts in excess of insured limits totaled approximately \$11,800 and \$540,000, respectively.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 3 - Contributions Receivable

Contributions receivable represent gifts from individuals and corporations for the general support of the Society. The balance of contributions receivable at December 31, 2016 and 2015 were \$328,500 and \$110,779, respectively. All contributions are due within one year and are considered fully collectible; therefore no allowance has been established.

Note 4 - Investments - Operating Fund

Operating fund investments are carried at fair value and are comprised of the following at December 31:

	2016	2015
Mutual funds	\$ 1,612,606	\$ 1,098,228
Fixed income	601,296	554,176
Equities	403,008	214,755
Municipal bonds	2,041	1,927
	\$ 2,618,951	\$ 1,869,086

Net realized and unrealized losses on operating fund investments for the years ended December 31, 2016 and 2015 amounted to \$8,788 and \$176,540, respectively.

Investment fees included in interest and dividends for the years ended December 31, 2016 and 2015 amounted to \$32,758 and \$11,270, respectively.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 5 - Investments - Endowment Fund

Endowment fund investments are carried at fair value and are comprised of the following at December 31:

	2016			
	BB&T MacCarthy Trust	BB&T Leifson Trust	Merrill Lynch SPCA Endowment	Total
Cash and cash equivalents	\$ 35,197	\$ 8,923	\$ 24,821	\$ 68,941
Equities	272,732	-	-	272,732
Mutual funds	1,181,984	311,553	170,025	1,663,562
	\$ 1,489,913	\$ 320,476	\$ 194,846	\$ 2,005,235
	2015			
	BB&T MacCarthy Trust	BB&T Leifson Trust	Wells Fargo SPCA Endowment	Total
Cash and cash equivalents	\$ 30,867	\$ 10,894	\$ 1,325	\$ 43,086
Fixed income	-	-	44,626	44,626
Equities	260,838	-	17,234	278,072
Mutual funds	1,161,838	301,014	88,132	1,550,984
	\$ 1,453,543	\$ 311,908	\$ 151,317	\$ 1,916,768

Net realized and unrealized gains on endowment investments for the year ended December 31, 2016 amounted to \$76,690.

Net realized and unrealized losses on endowment investments for the year ended December 31, 2015 amounted to \$66,393.

Investment fees included in net realized and unrealized gain/loss on investments for the years ended December 31, 2016 and 2015 amounted to \$28,125 and \$25,562, respectively.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 6 - Fair Value Measurement

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Society has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Society. The Society considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Society's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified as Level 1, includes cash and cash equivalents, active listed mutual funds, and common stock.

Investments whose values are based on observable market-based inputs, and are, therefore classified as level 2, include U.S. government obligations and municipal bonds.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 6 - Fair Value Measurement (Cont.)

The table below presents the balances of operating investments measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	2016			Total
	Level 1	Level 2	Level 3	
Operating Fund Investments:				
Municipal bonds	\$ -	\$ 2,041	\$ -	\$ 2,041
Fixed income	-	601,296	-	601,296
Equities				
Other	162,981	-	-	162,981
Financial	107,541	-	-	107,541
Technology	79,904	-	-	79,904
Consumer	52,582	-	-	52,582
Mutual funds				
Bond	581,812	-	-	581,812
Blend	353,735	-	-	353,735
Other	305,228	-	-	305,228
Value	201,654	-	-	201,654
Growth	129,641	-	-	129,641
Equity	40,536	-	-	40,536
Total operating investments	<u>2,015,614</u>	<u>603,337</u>	<u>-</u>	<u>2,618,951</u>

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 6 - Fair Value Measurement (Cont.)

The table below presents the balances of endowment investments measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	2016			Total
	Level 1	Level 2	Level 3	
Endowment Fund Investments:				
Cash and cash equivalents	\$ 68,941	\$ -	\$ -	\$ 68,941
Equities				
Energy	64,268	-	-	64,268
Consumer	61,530	-	-	61,530
Health care	54,259	-	-	54,259
Technology	51,516	-	-	51,516
Financials	28,519	-	-	28,519
Industrials	12,640	-	-	12,640
Mutual funds				
Fixed income	962,763	-	-	962,763
Value	221,231	-	-	221,231
Growth	206,926	-	-	206,926
Blend	96,042	-	-	96,042
Bond	48,741	-	-	48,741
Index	42,261	-	-	42,261
Other	35,098	-	-	35,098
Equity	33,780	-	-	33,780
Real estate investment trust	16,720	-	-	16,720
Total endowment investments	<u>2,005,235</u>	<u>-</u>	<u>-</u>	<u>2,005,235</u>
Total investments	<u>\$ 4,020,849</u>	<u>\$ 603,337</u>	<u>\$ -</u>	<u>\$ 4,624,186</u>

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 6 - Fair Value Measurement (Cont.)

The table below presents the balances of investments measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	2015			Total
	Level 1	Level 2	Level 3	
Operating Fund Investments:				
Municipal bonds	\$ -	\$ 1,927	\$ -	\$ 1,927
Fixed income	-	554,176	-	554,176
Equities				
Other	72,727	-	-	72,727
Technology	63,445	-	-	63,445
Consumer	44,238	-	-	44,238
Financial	34,345	-	-	34,345
Mutual funds				
Blend	430,132	-	-	430,132
Other	277,663	-	-	277,663
Bond	181,765	-	-	181,765
Equity	91,759	-	-	91,759
Growth	70,254	-	-	70,254
Value	46,654	-	-	46,654
Total operating investments	<u>1,312,983</u>	<u>556,103</u>	<u>-</u>	<u>1,869,086</u>

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 6 - Fair Value Measurement (Cont.)

The table below presents the balances of endowment investments measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	2015			Total
	Level 1	Level 2	Level 3	
Endowment Fund Investments:				
Municipal bonds	\$ -	\$ 155	\$ -	\$ 155
Fixed income	-	44,471	-	44,471
Cash and cash equivalents	43,086	-	-	43,086
Equities				
Consumer	59,402	-	-	59,402
Health care	51,062	-	-	51,062
Financials	47,530	-	-	47,530
Utilities	32,296	-	-	32,296
Technology	27,434	-	-	27,434
Energy	22,082	-	-	22,082
Telecommunications	19,970	-	-	19,970
Industrials	12,460	-	-	12,460
Other	5,836	-	-	5,836
Mutual funds				
Fixed income	944,221	-	-	944,221
Growth	198,295	-	-	198,295
Value	167,897	-	-	167,897
Blend	135,238	-	-	135,238
Index	23,835	-	-	23,835
Real estate investment trust	23,122	-	-	23,122
Other	22,282	-	-	22,282
Bond	14,587	-	-	14,587
Income	14,143	-	-	14,143
Equity	7,364	-	-	7,364
Total endowment investments	<u>1,872,142</u>	<u>44,626</u>	<u>-</u>	<u>1,916,768</u>
Total investments	<u>\$ 3,185,125</u>	<u>\$ 600,729</u>	<u>\$ -</u>	<u>\$ 3,785,854</u>

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 7 - Property and Equipment

The carrying values of each class of property and equipment consisted of the following at December 31:

	Estimated Useful Life	2016	2015
Land and improvements	7 - 20 yrs	\$ 57,178	\$ 42,325
Buildings and improvements	5 - 40 yrs	1,436,705	1,436,705
Equipment and fixtures	3 - 15 yrs	406,606	401,257
Vehicles	5 yrs	47,208	47,208
Construction in progress (Note 8)	-	5,024	100,121
		1,952,721	2,027,616
Less accumulated depreciation		(1,452,873)	(1,408,391)
		<u>\$ 499,848</u>	<u>\$ 619,225</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$44,481 and \$48,584, respectively.

Note 8 - Construction in Progress

The Society is planning to expand its shelter facilities. Total contributions received from donors specifically for this project since inception amounted to \$304,564 as of December 31, 2016 and 2015. Construction in progress through December 31, 2016 and 2015 of \$105,145 and \$100,121, respectively, represents amounts spent on this expansion.

Note 9 - Capital Lease Obligations

The Society leases a copier under an arrangement that has been accounted for as a capital lease. The lease is for a period of 60 months ending October 2018. Monthly payments of \$150 are made and consist of principal and interest at 38%. The copier has been capitalized and is being depreciated over 5 years. The capitalized value as of December 31, 2016 and 2015 was \$3,995 with accumulated depreciation of \$2,597 and \$1,798, respectively.

Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 9 - Capital Lease Obligations (Cont.)

Total interest paid under the lease for the years ended December 31, 2016 and 2015 was \$1,077 and \$1,287, respectively. Depreciation of the leased copier is included in depreciation expense.

Future minimum lease payments are as follows for the years ended December 31:

	2017	\$ 1,797
	2018	<u>1,497</u>
	Total minimum lease payments	3,294
	Less amounts representing interest	<u>(948)</u>
	Present value of minimum lease payments (including current portion of \$1,079)	<u><u>\$ 2,346</u></u>

Note 10 - Special Events

The direct costs of special events have been netted with special events revenue. Special events revenue and direct costs consisted of the following at December 31:

	2016	2015
Revenue	\$ 159,996	\$ 207,709
Direct expenses	<u>(24,018)</u>	<u>(25,348)</u>
Total net revenues	<u><u>\$ 135,978</u></u>	<u><u>\$ 182,361</u></u>

Note 11 - Donated Services and Materials

Donated services and materials have been recorded at their estimated value as of the date the services were rendered and goods provided. For the years ended December 31, 2016 and 2015, donated services and materials were \$159,345 and \$121,840, respectively. If these services, which are an integral part of the program, were not provided by a volunteer, they would otherwise have to be performed by paid personnel.

Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 12 - Retirement Plan

The Society maintains a SIMPLE IRA plan that covers all eligible employees and matches up to 1% of compensation. Employees may defer an amount not to exceed the maximum guidelines set by the Internal Revenue Service. For the years ended December 31, 2016 and 2015, employer contributions were \$1,647 and \$1,923, respectively.

Note 13 - Net Assets, Board Designated

The Board of Directors has designated funds for the following purposes as of December 31:

	2016	2015
Building fund	\$ 291,476	\$ 291,476
Funds for future operations	250,000	250,000
	\$ 541,476	\$ 541,476

Note 14 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of December 31:

	2016	2015
Shelter expansion	\$ 204,443	\$ 204,443
Bubba fund	94,203	98,266
SPCA endowment	91,809	52,844
Sparky fund	6,399	6,374
Ares fund	2,196	2,196
	\$ 399,050	\$ 364,123

Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
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Note 15 - Donor-Designated Endowments

The Society has been named beneficiary of two irrevocable trusts administered by a bank.

The Society is required by the terms of the MacCarthy Trust to certify annually to the Trustees that it does not oppose vivisection. The MacCarthy Trust also specifies that ninety percent of the annual endowment income be available without restriction, and the remaining ten percent of income be invested in the Society's endowment fund. If the policy of the Society is altered to one of disapproval or opposition to the surrender of condemned animals for such use, the trust shall be terminated, and the principal will be paid to the National Society for Medical Research, Incorporated.

The Leifson Trust specifies that if the Society is dissolved by voluntary or involuntary means, the bank shall pay the entire fund, including any undistributed or accrued income to Anne Arundel Medical Center.

Distributions from each trust are made to the Society on a semi-annual basis. A portion of the income is retained by the bank to cover trustee fees and other costs. Distributions received from these trusts for the years ended December 31, 2016 and 2015 totaled \$49,878 and \$47,303, respectively. Investment income is shown net of investment fees.

Permanently restricted net assets consist of the two trusts (corpus) and the cumulative ten percent distributions received from the MacCarthy Trust and transferred to the SPCA endowment fund.

The Society's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

A trustee is responsible for the investment strategy of the MacCarthy and Leifson trusts; therefore there is no investment policy that addresses these endowments and market fluctuations are reported as changes in permanently restricted net assets.

The Society has an informal spending policy where all accumulated endowment earnings are to be used for operations which are determined annually by the Board of Directors. As of December 31, 2016 and 2015, amounts appropriated for expenditure were \$45,313 and \$43,027, respectively.

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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 15 - Donor-Designated Endowments (Cont.)

Endowment net assets consisted of the following at December 31:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
MacCarthy Trust	\$ -	\$ -	\$ 1,489,913	\$ 1,489,913
Leifson Trust	-	-	320,476	320,476
SPCA Endowment Fund	-	91,809	103,037	194,846
Total endowment net assets	\$ -	\$ 91,809	\$ 1,913,426	\$ 2,005,235
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
MacCarthy Trust	\$ -	\$ -	\$ 1,453,543	\$ 1,453,543
Leifson Trust	-	-	311,908	311,908
SPCA Endowment Fund	-	52,844	98,473	151,317
Total endowment net assets	\$ -	\$ 52,844	\$ 1,863,924	\$ 1,916,768

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NOTES TO FINANCIAL STATEMENTS (Cont.)
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Note 15 - Donor-Designated Endowments (Cont.)

Changes in donor-restricted endowment net assets are as follows at December 31:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 52,844	\$ 1,863,924	\$ 1,916,768
Investment return:				
Investment income and realized/unrealized gain/(loss)	-	84,278	44,938	129,216
Required 10% distribution	-	-	4,564	4,564
Appropriation of endowment earnings for expenditure	-	(45,313)	-	(45,313)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 91,809</u>	<u>\$ 1,913,426</u>	<u>\$ 2,005,235</u>

*Endowment earnings, includes required semi-annual accumulated trust distributions

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 25,781	\$ 1,948,605	\$ 1,974,386
Investment return:				
Investment income and realized/unrealized gain	-	70,090	(88,957)	(18,867)
Required 10% distribution	-	-	4,276	4,276
Appropriation of endowment earnings for expenditure	-	(43,027)	-	(43,027)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 52,844</u>	<u>\$ 1,863,924</u>	<u>\$ 1,916,768</u>

*Endowment earnings, includes required semi-annual accumulated trust distributions

Note 16 - Unemployment Compensation Plan/Letter of Credit

The Organization has elected to maintain a self-funded unemployment compensation plan, whereby it will pay qualified claims directly in lieu of submitting quarterly unemployment taxes to the State. In order to be eligible for self-funding, the State requires collateral to be held in the event the center would fail to pay claims. As of December 31, 2016 and 2015, the State required collateral of \$16,460, which was in the form of a letter of credit. The letter of credit was renewed in October of 2015 in the amount of \$15,966 and currently expires in September of 2017.

Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2016

Note 17 - Subsequent Events

Subsequent events and transactions have been evaluated for potential recognition in the financial statements through May 17, 2017, the day the financial statements were available to be issued.