

**THE SOCIETY FOR THE PREVENTION OF
CRUELTY TO ANIMALS OF
ANNE ARUNDEL COUNTY, MARYLAND, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2018**

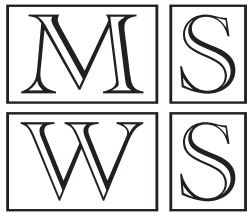


MULLEN SONDBERG WIMBISH & STONE, PA

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

We have audited the accompanying financial statements of The 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, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc. as of December 31, 2018, 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 The Society for the Prevention of Cruelty to Animals of Anne Arundel County, Maryland Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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
July 17, 2019

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS		2018	2017
CURRENT ASSETS			
Cash and cash equivalents		\$ 777,901	\$ 742,344
Investments		3,861,109	3,182,135
Inventory		5,747	3,937
Contributions receivable		134,345	410,100
Prepaid expenses		7,121	6,784
Total current assets		4,786,223	4,345,300
ENDOWMENT INVESTMENTS			
Cash and cash equivalents		70,930	73,357
Investments		1,917,118	2,076,957
Total endowment investments		1,988,048	2,150,314
PROPERTY AND EQUIPMENT			
Net of accumulated depreciation		577,057	544,703
Total assets		\$ 7,351,328	\$ 7,040,317
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses		\$ 71,415	\$ 54,678
Accrued salaries		20,938	16,055
Accrued vacation		15,452	13,100
Capital lease obligations		-	1,266
Total current liabilities		107,805	85,099
NET ASSETS			
Without donor restrictions		5,068,129	4,588,708
With donor restrictions		2,175,394	2,366,510
Total net assets		7,243,523	6,955,218
Total liabilities and net assets		\$ 7,351,328	\$ 7,040,317

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018
With Summarized Financial Information for the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018	2017
REVENUES				
Contributions	\$ 1,708,586	\$ 25,832	\$ 1,734,418	\$ 1,041,631
Shelter and spay and neuter clinic	332,976	-	332,976	301,286
Special events, net of direct expenses	258,035	-	258,035	183,047
Donated services and materials	92,905	-	92,905	100,137
Merchandise sales, net of direct expenses	21,464	-	21,464	27,790
Grants	20,335	-	20,335	14,005
Other income	150	-	150	325
Investment return, net	(153,212)	(116,639)	(269,851)	494,599
	2,281,239	(90,807)	2,190,432	2,162,820
Net assets released from restriction	100,309	(100,309)	-	-
Total revenues	2,381,548	(191,116)	2,190,432	2,162,820
EXPENSES				
Program services				
Shelter	1,103,307	-	1,103,307	1,011,631
Spay and neuter clinic	345,013	-	345,013	330,679
Donated services	92,905	-	92,905	100,137
Total program expenses	1,541,225	-	1,541,225	1,442,447
Supporting services				
Management and general	309,528	-	309,528	245,407
Fundraising	51,374	-	51,374	41,645
Total supporting services	360,902	-	360,902	287,052
Total expenses	1,902,127	-	1,902,127	1,729,499
Change in net assets	479,421	(191,116)	288,305	433,321
NET ASSETS AT BEGINNING OF YEAR	4,588,708	2,366,510	6,955,218	6,521,897
NET ASSETS AT END OF YEAR	\$ 5,068,129	\$ 2,175,394	\$ 7,243,523	\$ 6,955,218

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

With Summarized Financial Information for the Year Ended December 31, 2017

	Program Services				Supporting Services			Total	
	Shelter	Spay and Neuter Clinc	Donated Services	Total	Management & General	Fundraising	Total	2018	2017
Salaries	\$ 589,705	\$ 144,254	\$ -	\$ 733,959	\$ 92,476	\$ 20,998	\$ 113,474	\$ 847,433	\$ 869,530
Employee benefits	46,123	520	-	46,643	3,555	-	3,555	50,198	35,409
Payroll taxes	44,324	11,518	-	55,842	7,036	1,607	8,643	64,485	66,158
Total salaries and related expenses	680,152	156,292	-	836,444	103,067	22,605	125,672	962,116	971,097
Medical	58	152,098	-	152,156	-	-	-	152,156	128,564
Miscellaneous	29,544	-	-	29,544	17,007	17,300	34,307	63,851	40,971
Professional Fees	450	-	-	450	124,720	-	124,720	125,170	31,013
Vet Hospitals	119,791	506	-	120,297	-	-	-	120,297	85,759
Facility expenses	99,241	14,020	-	113,261	13,328	5,187	18,515	131,776	99,948
Animal food	55,385	94	-	55,479	-	-	-	55,479	74,947
Donated services	-	-	92,905	92,905	-	-	-	92,905	100,137
Insurance	29,080	13,752	-	42,832	12,142	-	12,142	54,974	40,285
Office expenses	34,977	723	-	35,700	10,202	5,211	15,413	51,113	61,403
Depreciation	28,308	5,473	-	33,781	6,474	-	6,474	40,255	39,382
Casual labor	29,987	-	-	29,987	-	-	-	29,987	2,056
Information technology	3,956	40	-	3,996	20,032	-	20,032	24,028	20,516
Repairs & maintenance	18,495	1,829	-	20,324	969	-	969	21,293	32,449
Animal removal	15,861	-	-	15,861	-	-	-	15,861	10,576
Advertising	8,020	-	-	8,020	-	1,001	1,001	9,021	6,527
Travel	1,869	-	-	1,869	66	70	136	2,005	3,196
Licenses & permits	692	186	-	878	800	-	800	1,678	2,618
Meals & catering	-	-	-	-	490	-	490	490	97
Interest expense	-	-	-	-	231	-	231	231	-
Total expenses	1,155,866	345,013	92,905	1,593,784	309,528	51,374	360,902	1,954,686	1,751,541
Less: special events expenses included with revenue in the statement of activities	(52,559)	-	-	(52,559)	-	-	-	(52,559)	(22,042)
Total expenses reported in the statement of activities	<u>\$ 1,103,307</u>	<u>\$ 345,013</u>	<u>\$ 92,905</u>	<u>\$ 1,541,225</u>	<u>\$ 309,528</u>	<u>\$ 51,374</u>	<u>\$ 360,902</u>	<u>\$ 1,902,127</u>	<u>\$ 1,729,499</u>

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2018

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 288,305	\$ 433,321
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	40,255	39,382
Unrealized/realized (gain) loss on investments	489,292	(352,817)
(Increase) decrease in operating assets:		
Inventory	(1,810)	542
Contributions receivable	275,755	(81,600)
Prepaid expenses	(337)	(6,406)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	16,737	22,330
Accrued salaries	4,883	4,259
Accrued vacation	2,352	3,089
	<u>1,115,432</u>	<u>62,100</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and reinvested income	(1,178,515)	(448,814)
Proceeds from sale of investments	172,515	93,368
Purchase of property and equipment	<u>(72,609)</u>	<u>(84,237)</u>
	<u>(1,078,609)</u>	<u>(439,683)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	<u>(1,266)</u>	<u>(1,080)</u>
	35,557	(378,663)
	<u>742,344</u>	<u>1,121,007</u>
	<u>\$ 777,901</u>	<u>\$ 742,344</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 231</u>	<u>\$ 717</u>

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

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

The 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. The 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 of the Society have been prepared in accordance with U.S. Generally Accepted Accounting Principles, which require the Society to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Society. These net assets may be used at the discretion of the Society's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Society or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Summarizes Comparative Information

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, 2017, from which the summarized information was derived.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

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

Contribution Revenue

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, 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 net assets without donor restrictions 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 net assets with donor restrictions, 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), net assets with donor restrictions are reclassified as net assets without donor restrictions 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 endowment investment portfolio.

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.

Investments

Investments with readily determinable fair values are reported at fair value in the statements of financial position. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments for the year are reported in the statement of activities.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

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

Property and Equipment

Property and equipment acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets such as land, buildings or equipment are recorded at their fair values and reported as net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used.

Inventory

Inventory is comprised of merchandise for sale. Merchandise is valued at the lower of cost, using the first-in, first-out method, or market.

Advertising Costs

The Society expenses advertising costs when incurred. Amounts charged to expense for the years ended December 31, 2018 and 2017 were \$2,441 and \$175, respectively.

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, 2015 remain subject to examination by federal and state authorities.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

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

Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all non-profit organizations to present their expenses on a functional basis, separating program services from management and general expenses and fundraising expenses. Functional expenses are either charged directly to program services as incurred or allocated based on usage for items such as occupancy, depreciation and administrative salaries.

Reclassifications

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

Donated Goods and Services

Donated services are recognized as a contribution if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society.

Various individuals and organizations contribute goods and services to the Society's programs. Donated goods and services are recorded at fair value as of the date of donation and are included in contributions as revenue and assets or expenses in the accompanying financial statements.

A significant number of unpaid volunteers contribute time to the Society. The value of these services are not reflected in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America because the time contributed was for non-specialized services, and the recognition criteria was not met.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

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

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented with the exception of the presentation of the statement of functional expenses, which has only been presented for the year ending December 31, 2018, as allowed under ASU 2016-14. As a result of the implementation of ASU 2016-14, net assets have been reclassified in the accompanying financial statements as follows as of the year ending December 31, 2017:

Net Asset Classification	Prior to ASU 2016-14	After ASU 2016-14
Unrestricted	\$ 4,047,232	\$ -
Unrestricted - Board designated	541,476	-
Temporarily Restricted	324,993	-
Permanently Restricted	2,041,517	-
Net assets without donor restrictions	-	4,588,708
Net assets with donor restrictions	-	2,366,510
	\$ 6,955,218	\$ 6,955,218

Note 2 - Concentration of Cash Balances

At December 31, 2018 and 2017 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, 2018 and 2017, amounts in excess of insured limits totaled approximately \$122,768 and \$272,369, respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 3 - Availability and Liquidity

The following represents the Society's financial assets at December 31:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 777,901	\$ 742,344
Investments	3,861,109	3,182,135
Contributions receivable	<u>134,345</u>	<u>410,100</u>
Total financial assets	4,773,355	4,334,579
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>285,730</u>	<u>324,993</u>
Financial assets available to meet general expenditures over the next twelve months before board designations:	4,487,625	4,009,586
Less:		
Board designated funds	<u>430,556</u>	<u>541,476</u>
Financial assets available to meet general expenditures	<u><u>\$ 4,057,069</u></u>	<u><u>\$ 3,468,110</u></u>

The Organization's goal is generally to maintain financial assets to meet 12 months of operating expenses, approximately \$1.9 million. Program revenues are approximately \$333,000 which comprises 18% of total revenue, as a result the Organization is highly dependent upon contributions. As part of its liquidity plan, excess cash is invested in short term investments, including money market accounts and certificates of deposit as well as longer term investments in the wider markets.

The Organization's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

Note 4 - 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, 2018 and 2017 were \$134,345 and \$410,100, respectively. All contributions are due within one year and are considered fully collectible; therefore no allowance has been established.

Note 5 - 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, 2018 and 2017 were \$15,452 and \$13,100, respectively.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 6 - Investments - Operating Fund

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

	2018	2017
Mutual funds	\$ 1,522,427	\$ 2,065,200
Certificates of deposit	1,834,298	597,963
Equities	504,384	518,972
	\$ 3,861,109	\$ 3,182,135

Net realized and unrealized gain/(loss) on operating fund investments for the years ended December 31, 2018 and 2017 amounted to \$(310,215) and \$217,012, respectively.

Investment fees included in investment return, net for the years ended December 31, 2018 and 2017 amounted to \$31,763 and \$24,766, respectively.

Note 7 - Investments - Endowment Fund

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

	2018			
	BB&T MacCarthy Trust	BB&T Leifson Trust	Merrill Lynch SPCA Endowment	Total
Cash and cash equivalents	\$ 38,522	\$ 25,943	\$ 6,465	\$ 70,930
Certificates of deposit	-	-	59,933	59,933
Equities	604,386	173,906	-	778,292
Mutual funds	799,978	134,747	144,168	1,078,893
	\$ 1,442,886	\$ 334,596	\$ 210,566	\$ 1,988,048
	2017			
	BB&T MacCarthy Trust	BB&T Leifson Trust	Merrill Lynch SPCA Endowment	Total
Cash and cash equivalents	\$ 33,736	\$ 11,402	\$ 28,219	\$ 73,357
Equities	704,387	-	-	704,387
Mutual funds	833,012	351,499	188,059	1,372,570
	\$ 1,571,135	\$ 362,901	\$ 216,278	\$ 2,150,314

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 7 - Investments - Endowment Fund (Cont.)

Net realized and unrealized gain/(loss) on endowment investments for the year ended December 31, 2018 and 2017 amounted to \$(171,768) and \$135,805, respectively.

Investment fees included in Investment return, net on investments for the years ended December 31, 2018 and 2017 amounted to \$25,839 and \$27,654, respectively.

Note 8 - 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 equities.

Investments whose values are based on observable market-based inputs, and are, therefore classified as level 2, include certificates of deposit.

The Society for the Prevention of Cruelty to Animals
of Anne Arundel County, Maryland, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 8 - 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:

	2018			Total
	Level 1	Level 2	Level 3	
Operating Fund Investments:				
Certificates of deposit	\$ -	\$1,834,298	\$ -	\$1,834,298
Equities	504,384	-	-	504,384
Mutual funds	1,522,427	-	-	1,522,427
Total operating investments	<u>2,026,811</u>	<u>1,834,298</u>	<u>-</u>	<u>3,861,109</u>
Endowment Fund Investments:				
Cash and cash equivalents	70,930	-	-	70,930
Certificates of deposit	-	59,933	-	59,933
Equities	778,292	-	-	778,292
Mutual funds	1,078,893	-	-	1,078,893
Total endowment investments	<u>1,928,115</u>	<u>59,933</u>	<u>-</u>	<u>1,988,048</u>
Total investments	<u>\$ 3,954,926</u>	<u>\$1,894,231</u>	<u>\$ -</u>	<u>\$5,849,157</u>
	2017			
	Level 1	Level 2	Level 3	Total
Operating Fund Investments:				
Certificates of deposit	\$ -	\$ 597,963	\$ -	\$ 597,963
Equities	518,972	-	-	518,972
Mutual funds	2,065,200	-	-	2,065,200
Total operating investments	<u>2,584,172</u>	<u>597,963</u>	<u>-</u>	<u>3,182,135</u>
Endowment Fund Investments:				
Cash and cash equivalents	73,357	-	-	73,357
Equities	704,387	-	-	704,387
Mutual funds	1,372,570	-	-	1,372,570
Total endowment investments	<u>2,150,314</u>	<u>-</u>	<u>-</u>	<u>2,150,314</u>
Total investments	<u>\$ 4,734,486</u>	<u>\$ 597,963</u>	<u>\$ -</u>	<u>\$5,332,449</u>

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 9 - Property and Equipment

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

	Estimated Useful Life	2018	2017
Land and improvements	7 - 20 yrs	\$ 57,178	\$ 57,178
Buildings and improvements	5 - 40 yrs	1,436,705	1,436,705
Equipment and fixtures	3 - 15 yrs	417,030	407,235
Vehicles	5 yrs	47,208	47,208
Construction in progress (Note 10)	-	151,447	88,632
		2,109,568	2,036,958
Less accumulated depreciation		(1,532,511)	(1,492,255)
		\$ 577,057	\$ 544,703

Depreciation expense for the years ended December 31, 2018 and 2017 was \$40,255 and \$39,382, respectively.

Note 10 - Construction in Progress

The Society is planning to expand its shelter facilities. Construction in progress through December 31, 2018 and 2017 of \$151,447 and \$88,632, respectively, represents amounts spent on this expansion, not yet placed in service.

Note 11 - 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 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, 2018 and 2017 was \$3,995 with accumulated depreciation of \$3,995 and \$3,396, respectively.

Total interest paid under the lease for the years ended December 31, 2018 and 2017 was \$231 and \$717, respectively. Depreciation of the leased copier is included in depreciation expense.

Note 12 - 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:

	2018	2017
Revenue	\$ 310,594	\$ 205,089
Direct expenses	(52,559)	(22,042)
Total net revenues	\$ 258,035	\$ 183,047

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 13 - 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, 2018 and 2017, donated services and materials were \$92,905 and \$100,137 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.

Note 14 - 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, 2018 and 2017, employer contributions were \$1,004 and \$1,043, respectively.

Note 15 - Net Assets without Donor Restrictions

Net assets without donor restrictions as of December 31:

	2018	2017
Undesignated	\$ 4,637,573	\$ 4,047,232
Board designated	430,556	541,476
	\$ 5,068,129	\$ 4,588,708

Note 16 - Net Assets with Donor Restrictions

Net assets with donor consisted of the following as of December 31:

	2018	2017
MacCarthy Trust	\$ 1,442,886	\$ 1,571,135
Leifson Trust	334,596	362,901
SPCA Endowment Fund	210,566	216,278
Shelter expansion	91,849	120,835
Bubba fund	87,136	87,000
Sparky fund	6,165	6,165
Ares fund	2,196	2,196
	\$ 2,175,394	\$ 2,366,510

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 17 - 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, 2018 and 2017 totaled \$50,325 and \$48,065, 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, 2018 and 2017, amounts appropriated for expenditure were \$45,626 and \$43,621, respectively.

The Society for the Prevention of Cruelty to Animals
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NOTES TO FINANCIAL STATEMENTS (Cont.)
December 31, 2018

Note 17 - Donor-Designated Endowments (Cont.)

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

	With donor restrictions	
	2018	2017
Endowment net assets, beginning of year	\$ 2,150,313	\$ 2,005,235
Investment return:		
Investment income and realized/unrealized gain (loss)	(121,340)	184,255
Required 10% distribution	4,701	4,444
Appropriation of endowment earnings for expenditure	(45,626)	(43,621)
Endowment net assets, end of year	\$ 1,988,048	\$ 2,150,313

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

Note 18 - 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, 2018 and 2017, the State required collateral of \$17,329, which was in the form of a letter of credit. The letter of credit was renewed in September of 2017 in the amount of \$17,329 and currently expires in September of 2019.

Note 19 - Subsequent Events

The Society has evaluated the impact of significant events. There have been no significant events through July 17, 2019, the date the Society's financial statements were available to be issued, that require recognition or disclosure.