

SPCA OF WAKE COUNTY, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**SPCA OF WAKE COUNTY, INC.
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	5
STATEMENTS OF FUNCTIONAL EXPENSES	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8

INDEPENDENT AUDITORS' REPORT

Board of Directors
SPCA of Wake County, Inc.
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of SPCA of Wake County, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' 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.

Board of Directors
SPCA of Wake County, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Raleigh, North Carolina
August 16, 2017

**SPCA OF WAKE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,196,886	\$ 954,125
Marketable Securities	478,333	396,472
Receivables:		
Other Receivables	889	1,029
Refundable Taxes	8,433	6,345
Inventories	16,679	18,559
Prepaid Expenses	13,242	13,272
Total Current Assets	1,714,462	1,389,802
PROPERTY AND EQUIPMENT		
Land and Improvements	689,833	689,833
Building and Improvements	3,548,319	3,523,419
Vehicles	27,269	22,929
Furniture, Fixtures, and Equipment	586,304	631,345
	4,851,725	4,867,526
Less: Accumulated Depreciation	1,835,139	1,757,267
Property and Equipment, Net	3,016,586	3,110,259
OTHER ASSETS		
Cash Surrender Value of Life Insurance Policies	40,000	38,434
Property Held for Resale	700	700
	40,700	39,134
 Total Assets	 \$ 4,771,748	 \$ 4,539,195

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 93,987	\$ 153,938
Accrued Expenses:		
Accrued Wages and Payroll Liabilities	48,762	38,927
Accrued Vacation	40,601	37,871
Accrued Interest	557	557
Other	3,850	7,809
Deferred Grant Revenue	871	1,727
Current Portion of Capital Lease	7,091	6,396
Current Portion of Note Payable	31,343	27,642
Total Current Liabilities	<u>227,062</u>	<u>274,867</u>
LONG-TERM CAPITAL LEASE, LESS CURRENT MATURITIES ABOVE	21,278	28,369
NOTE PAYABLE, LESS CURRENT MATURITIES ABOVE	<u>511,734</u>	<u>543,082</u>
Total Liabilities	760,074	846,318
NET ASSETS		
Unrestricted	3,899,519	3,582,152
Temporarily Restricted	9,200	9,200
Permanently Restricted	102,955	101,525
Total Net Assets	<u>4,011,674</u>	<u>3,692,877</u>
Total Liabilities and Net Assets	<u>\$ 4,771,748</u>	<u>\$ 4,539,195</u>

SPCA OF WAKE COUNTY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
SUPPORT, REVENUES, AND GAINS								
Contributions	\$ 2,633,591	\$ -	\$ 1,430	\$ 2,635,021	\$ 2,514,020	\$ -	\$ 101,525	\$ 2,615,545
Adoption and Surrender Fees	276,994	-	-	276,994	278,277	-	-	278,277
Spay Neuter Clinic Rent	41,173	-	-	41,173	39,981	-	-	39,981
Special Events	573,855	-	-	573,855	591,917	-	-	591,917
Retail Sales	131,144	-	-	131,144	130,900	-	-	130,900
Other Fees and Services	32,900	-	-	32,900	29,281	-	(10,586)	18,695
Investment Income:								
Net Realized Gain on Sale of Marketable Securities	43,843	-	-	43,843	22,217	-	-	22,217
Net Appreciation (Depreciation) in Fair Value of Marketable Securities	(15,051)	-	-	(15,051)	(34,944)	-	-	(34,944)
Interest and Dividends	10,279	-	-	10,279	12,001	-	-	12,001
Total Support, Revenues, and Gains	<u>3,728,728</u>	<u>-</u>	<u>1,430</u>	<u>3,730,158</u>	<u>3,583,650</u>	<u>-</u>	<u>90,939</u>	<u>3,674,589</u>
EXPENSES								
Program Services	2,659,671	-	-	2,659,671	2,471,367	-	-	2,471,367
General and Administrative	323,391	-	-	323,391	310,587	-	-	310,587
Fundraising	428,299	-	-	428,299	428,756	-	-	428,756
Total Expenses	<u>3,411,361</u>	<u>-</u>	<u>-</u>	<u>3,411,361</u>	<u>3,210,710</u>	<u>-</u>	<u>-</u>	<u>3,210,710</u>
CHANGES IN NET ASSETS	317,367	-	1,430	318,797	372,940	-	90,939	463,879
Net Assets - Beginning of Year	<u>3,582,152</u>	<u>9,200</u>	<u>101,525</u>	<u>3,692,877</u>	<u>3,209,212</u>	<u>9,200</u>	<u>10,586</u>	<u>3,228,998</u>
NET ASSETS - END OF YEAR	<u>\$ 3,899,519</u>	<u>\$ 9,200</u>	<u>\$ 102,955</u>	<u>\$ 4,011,674</u>	<u>\$ 3,582,152</u>	<u>\$ 9,200</u>	<u>\$ 101,525</u>	<u>\$ 3,692,877</u>

See accompanying Notes to Financial Statements.

SPCA OF WAKE COUNTY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program Services	General and Administration	Fundraising	Total	Program Services	General and Administration	Fundraising	Total
EXPENSES								
Salaries and Benefits	\$ 1,244,664	\$ 207,262	\$ 107,608	\$ 1,559,534	\$ 1,106,382	\$ 203,230	\$ 166,628	\$ 1,476,240
Fundraising and Other Events	147,630	16,710	303,358	467,698	117,802	19,496	243,337	380,635
Retail Sales	53,130	-	-	53,130	54,436	-	-	54,436
Shelter, Supplies, and Services	559,210	-	-	559,210	551,330	-	-	551,330
Medical/Veterinarian/Spay/Neuter Fund	193,505	-	-	193,505	189,496	-	-	189,496
Training and Development	4,820	1,453	1,245	7,518	7,632	3,479	1,458	12,569
Professional Fees	-	17,001	-	17,001	-	12,202	-	12,202
Investment Fees	-	6,500	-	6,500	-	6,000	-	6,000
Insurance - General	15,232	847	77	16,156	14,972	873	75	15,920
Travel and Vehicle Operations	3,358	463	49	3,870	3,069	210	385	3,664
Utilities	105,948	1,252	520	107,720	111,978	1,296	541	113,815
Repairs and Maintenance	46,906	517	190	47,613	35,010	490	182	35,682
Postage	-	10,725	439	11,164	189	9,596	656	10,441
Merchant and Bank Fees	15,910	28,693	-	44,603	12,858	28,358	-	41,216
Office and Computer	86,251	18,057	13,794	118,102	66,117	16,589	13,472	96,178
Dues and Subscriptions	1,052	1,424	-	2,476	1,585	789	-	2,374
Taxes and Licenses	1,762	202	-	1,964	450	200	-	650
Community Outreach and Advertising	-	-	-	-	22,483	-	1,039	23,522
Loan Interest	22,934	401	168	23,503	25,463	445	186	26,094
Miscellaneous	9,813	9,930	39	19,782	5,200	5,415	-	10,615
Total Expenses before Depreciation and Amortization	2,512,125	321,437	427,487	3,261,049	2,326,452	308,668	427,959	3,063,079
Depreciation and Amortization	147,546	1,954	812	150,312	144,915	1,919	797	147,631
Total Expenses	<u>\$ 2,659,671</u>	<u>\$ 323,391</u>	<u>\$ 428,299</u>	<u>\$ 3,411,361</u>	<u>\$ 2,471,367</u>	<u>\$ 310,587</u>	<u>\$ 428,756</u>	<u>\$ 3,210,710</u>

See accompanying Notes to Financial Statements.

**SPCA OF WAKE COUNTY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 318,797	\$ 463,879
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Realized and Unrealized (Gain) Loss on Investments	(28,792)	12,727
Depreciation and Amortization	150,312	147,631
Increase in Cash Surrender Value of Life Insurance Policies	(1,566)	(1,626)
Changes in Assets and Liabilities:		
Accounts Receivable	(1,948)	7,660
Inventories	1,880	(3,541)
Prepaid Expenses	30	(821)
Accounts Payable	(59,951)	114,057
Accrued Expenses	8,606	23,571
Deferred Grant Revenue	(856)	(830)
Net Cash Flows Provided by Operating Activities	386,512	762,707
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Marketable Securities, Net	(53,069)	(347)
Purchase of Capital Expenditures	(56,639)	(54,198)
Change in North Carolina Community Foundation Fund	-	10,586
Net Cash Used by Investing Activities	(109,708)	(43,959)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Line of Credit	-	(55,000)
Payments on Note Payable	(27,647)	(17,949)
Payment on Capital Lease	(6,396)	(4,454)
Net Cash Used by Financing Activities	(34,043)	(77,403)
NET INCREASE IN CASH AND CASH EQUIVALENTS	242,761	641,345
Cash and Cash Equivalents - Beginning of Year	954,125	312,780
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,196,886	\$ 954,125
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 23,503	\$ 26,094
Equipment Purchased Under Capital Lease	\$ -	\$ 39,219

See accompanying Notes to Financial Statements.

**SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 ORGANIZATION

The SPCA of Wake County, Inc. (the Organization) is a nonprofit organization incorporated in North Carolina on June 7, 1967 to transform the lives of pets and people through protection, care, education, and adoption. The board of directors represents the Organization and is responsible for policy, administration, and financial affairs. The Organization's revenues are derived principally from pet adoption fees, donations from the community, and special events.

During 2016, the Organization approved a change to their fiscal year-end from December 31 to June 30. This change in year-end is effective January 1, 2017. The change was made based on the operational needs of the Organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and disclosure of contingent 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 those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all investments with an original maturity of three months or less to be cash equivalents.

Marketable Securities

The Organization reports investments at fair value as of the statement of financial position date. Investment income and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets absent any donor restrictions.

Fair Value Measurement

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.

SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The Organization also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value as permitted under this policy; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Based on experience, management believes that the entire amounts are fully collectible; therefore, no allowance for doubtful accounts has been recorded as of December 31, 2016 and 2015. In the unlikely event that an outstanding balance could not be collected, it would be written down with a charge against bad debt expense and a credit to the receivable balance.

Inventories

Inventories at December 31, 2016 and 2015 consist of adoptable animals and items for sale in the Organization's retail store. Inventories are stated at the lower of cost (first-in, first-out) or market.

**SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost. It is the policy of the Organization to capitalize property and equipment with a cost basis of \$2,500 or greater and an estimated useful life of greater than one year. Donated property and equipment are recorded at fair value at the date of receipt. Depreciation and amortization are provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives range as follows:

Land Improvements	15 Years
Building and Improvements	5 – 39 Years
Vehicles	5 Years
Furniture, Fixtures, and Equipment	3 – 15 Years

Expenditures for repairs and maintenance are charged to expense as incurred. Upon disposition of property and equipment, the related asset and accumulated depreciation and amortization accounts are removed, and any gain or loss is reflected in the statements of activities and changes in net assets.

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was approximately \$150,000 and \$148,000, respectively.

Cash Surrender Value of Life Insurance

The Organization is the owner and beneficiary of donated life insurance policies totaling \$60,000. The cash surrender value of these policies was approximately \$40,000 and \$38,000 at December 31, 2016 and 2015, respectively.

Property Held for Resale

Property held for resale is recorded at cost. At December 31, 2016 and 2015, property held for resale consisted of two cemetery plots.

Accrued Vacation

Eligible employees of the Organization are entitled to paid vacation, based on length of service and work classification. Employees can accumulate up to 160 hours of vacation.

Net Assets

The Organization classifies its funds for accounting and reporting purposes according to three classes of net assets. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets represent resources whose use is not limited or restricted by donors. These assets generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.

SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Temporarily Restricted Net Assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Temporarily restricted net assets are reclassified to unrestricted as their time and/or purpose requirements are met.

Permanently Restricted Net Assets represent resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time or can be fulfilled or otherwise removed by actions of the Organization. Donors of these assets stipulate that all, or part of, the income earned on related investments be used for general or specific purposes.

Uniform Prudent Management of Institutional Funds Act

During fiscal year 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective in the state of North Carolina. In August 2008, the FASB released the nonprofit accounting standard for reporting of endowment funds (the UPMIFA Standard), which is intended to improve the quality and consistency of financial reporting of endowments held by nonprofit organizations. Under UPMIFA, all unappropriated endowment funds are considered restricted.

Contributions

The Organization reports monetary gifts as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. The Organization reports donor-restricted grants whose restrictions are met in the same year as unrestricted revenue.

All contributions are considered available for the general activities of the Organization, unless specifically restricted by the donor. The Organization is the beneficiary under various wills and trust agreements, the total reliability of which is not presently determinable. Such amounts are recorded when the proceeds are measurable.

In-kind contributions are reflected as contributions at their estimated fair value at the date of donation. The Organization reports gifts of stock, land, buildings, equipment, and other nonmonetary contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

The Organization expenses advertising costs as they are incurred.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is not a private foundation. Accordingly, no income taxes have been provided in the accompanying financial statements.

Management has evaluated the effect of the guidance provided by the provisions of accounting principles generally accepted in the United States of America on Accounting for Uncertainty in Income Taxes. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at December 31, 2016. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Organization had no uncertain income tax positions at December 31, 2016 and 2015.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 16, 2017, the date the financial statements were issued.

NOTE 3 CONCENTRATION OF CREDIT RISK

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. During the year, the Organization from time to time may have had accounts on deposit in excess of the insured limits; however, the Organization does transfer funds as needed to address this risk. Management believes the risk of loss associated with these excess funds to be remote.

**SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS

Marketable securities are comprised of the following as of December 31:

	2016	2015
Mutual Funds - Blended	\$ 407,712	\$ 298,564
Mutual Funds - Bonds	70,621	97,908
Total	\$ 478,333	\$ 396,472

The Organization uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 2 – Summary of Significant Accounting Policies. The following tables present the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of December 31:

2016				
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Blended	\$ 407,712	\$ -	\$ -	\$ 407,712
Bonds	70,621	-	-	70,621
Total	\$ 478,333	\$ -	\$ -	\$ 478,333
2015				
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Blended	\$ 298,564	\$ -	\$ -	\$ 298,564
Bonds	97,908	-	-	97,908
Total	\$ 396,472	\$ -	\$ -	\$ 396,472

NOTE 5 NORTH CAROLINA COMMUNITY FOUNDATION

The Organization established an endowment through the North Carolina Community Foundation. Each year 5% of the annual interest earned, after fees, is to be dispensed to the Organization with the remaining 95% being reinvested in the fund.

The board of trustees of the North Carolina Community Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to the specified organization if, in the sole judgment of the board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. As a result, management determined this amount should not be recorded in the Organization's financial statements as the North Carolina Community Foundation has variance power over the funds. The balance of the fund was \$9,638 and \$9,641 at December 31, 2016 and 2015, respectively.

**SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 INVENTORIES

Inventories are comprised of the following at December 31:

	2016	2015
Adoptable Animals	\$ 11,950	\$ 14,320
Merchandise	4,729	4,239
Total	<u>\$ 16,679</u>	<u>\$ 18,559</u>

NOTE 7 CONTRIBUTED GOODS AND SERVICES

Various individuals and organizations donate food, animal care supplies, and specialized services to the Organization. Corporations and individuals also donate goods and services for events. Contributed goods and services for the years ended December 31, 2016 and 2015 consisted of the following and are included as contributions in the accompanying financial statements:

	2016	2015
Donated Food and Animal Care Supplies	\$ 97,739	\$ 103,674
Goods and Services for Events	40,964	61,260
Specialized Services	261,910	209,903
Total	<u>\$ 400,613</u>	<u>\$ 374,837</u>

Of these amounts \$400,613 and \$373,337 were for program services for the years ended December 31, 2016, respectively. In addition, \$1,500 was for management and general services for the year ended December 31, 2015. There were no contributions for management and general services for the year ended December 31, 2016.

Volunteers perform various services for the Organization. These services are significant and form an integral part of the efforts of the Organization. However, no amount has been reflected in the financial statements for these services as they do not meet the criteria for recognition. The Organization recognizes contributions of services received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed.

SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 OPERATING LEASES

The Organization leases certain equipment under operating leases scheduled to expire at various dates through 2020. Total rental expense under these leases was approximately \$35,000 and \$43,000 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments under noncancelable operating lease agreements subsequent to December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 15,296
2018	14,796
2019	14,796
2020	5,539
2021	2,100
Total	<u>\$ 52,527</u>

NOTE 9 CAPITAL LEASES

During the year ended December 31, 2015, the Organization entered into a new long-term capital lease agreement for equipment. A schedule of the leased equipment under capital lease follows:

	<u>Amount</u>
Moveable Equipment	\$ 39,219
Less: Accumulated Depreciation	13,727
Total	<u>\$ 25,492</u>

Amortization expense of approximately \$14,000 from assets held under capital leases is included in depreciation and amortization expense for the year ended December 31, 2016.

The schedule of future minimum lease payments and present values of the net minimum lease payments follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 9,696
2018	9,696
2019	9,696
2020	4,848
	<u>33,936</u>
Less: Amounts Representing Interest	5,567
Less: Current Portion	7,091
Total	<u>\$ 21,278</u>

**SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 10 BANK LINES OF CREDIT

In March 2013, the Organization entered into a revolving line of credit with a financial institution for a maximum amount of \$75,000 at a rate of 3.25%. The line of credit was collateralized by substantially all assets of the Organization and had no covenants. At December 31, 2016 and 2015, there were no amounts outstanding on this line of credit. There was no interest expense for the years ended December 31, 2016 and 2015. The line of credit matured December 2015. In February 2016, the Organization renewed the line of the credit agreement with the same financial institution with a maturity date of December 2017 at a rate of 3.5%.

In December 2013, the Organization entered into a revolving line of credit with a financial institution with a maximum amount of \$175,000 at a rate of 3.25%. The line of credit was collateralized by the holding center in Garner, North Carolina and has no covenants. This line of credit was paid off during the year ended December 31, 2015. Interest expense on this revolving line of credit was approximately \$300 for the year ended December 31, 2015. There was no interest expense on this revolving line of credit for the year ended December 31, 2016. The line of credit matured December 2015. In February 2016, the Organization renewed the line of the credit agreement with the same financial institution with a maturity date of December 2017 at a rate of 3.5%.

NOTE 11 NOTE PAYABLE

In May 2015, the Organization entered into a promissory note with a financial institution. The principal amount of the note was \$590,000, which bears an interest rate of 3.89%. The note requires monthly payments including interest of \$4,350 through 2025 with a balloon payment or refinancing in that year. The note is collateralized by a first lien deed of trust on land and buildings of the Organization.

Future maturities under this note payable are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 31,343
2018	32,602
2019	33,912
2020	35,225
2021	36,668
Thereafter	373,327
Total	<u>\$ 543,077</u>

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets consisted of amounts restricted in use for signage at December 31, 2016 and 2015.

**SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS

The following table summarizes the permanently restricted net assets as of December 31:

	<u>2016</u>	<u>2015</u>
Klemstine Endowment	\$ 102,955	\$ 101,525

Endowment Funds

The Organization's endowment funds were established by donors for whom income is expendable to support its mission. As required by GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

During 2009 the state of North Carolina adopted the Uniform Prudent Management of Institutional Funds Act. The Organization has interpreted the Act as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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.

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for their Investment Funds, including the permanent endowments that attempt to provide a balance of long-term capital appreciation, preservation of capital, and income production to support additional resources for the continuation and expansion of the Organization's mission. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

Strategies Employed for Achieving Results

To satisfy its long-term capital appreciation and expected results, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within established risk constraints.

Spending Policy

The Organization has a policy based upon the intent of the donor-restricted endowed assets, to spend the earnings from the endowment fund for current operations.

**SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Endowment Funds (Continued)

Deficiencies

From time to time, the fair value of assets in endowment funds may fall below the required level stipulated by the donor. In accordance with the provisions of the financial accounting standard for endowments of nonprofit organizations, deficiencies of this nature are reported in unrestricted net assets. If future investment returns do not alleviate the deficiency, the Organization may be required to contribute additional amounts to the fund.

The Organization accumulates donations from interested parties that are permanently restricted by the donors. The following is the change in endowment net assets for the years ended December 31, 2016 and 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2014	\$ -	\$ -	\$ -
Income, Net of Expenses	-	-	-
Contributions	-	101,525	101,525
Net Assets Released from Restriction	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Net Assets, December 31, 2015	-	101,525	101,525
Income, Net of Expenses	-	-	-
Contributions	-	1,430	1,430
Net Assets Released from Restriction	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Net Assets, December 31, 2016	<u>\$ -</u>	<u>\$ 102,955</u>	<u>\$ 1,430</u>

SPCA OF WAKE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 14 PROFIT-SHARING PLAN

The Organization has a 401(k) profit sharing plan (the Plan) to provide retirement benefits for its eligible employees. Eligible employees may contribute up to the maximum annual amount as set periodically by the Internal Revenue Service. The Plan provides for a discretionary employer match as determined by the board of directors. No employer discretionary matches were made during the years ended December 31, 2016 and 2015. Additionally, the Plan provides for a discretionary profit sharing contribution. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. The Organization made no profit sharing contributions during the years ended December 31, 2016 and 2015.

NOTE 15 RELATED-PARTY TRANSACTIONS

A member of the board of directors is the eastern region president at the same bank where the Organization has the lines of credit.



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.