CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

FINANCIAL REPORT

December 31, 2022

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Charlottesville – Albemarle Society for the
Prevention of Cruelty to Animals, Inc.
Charlottesville, Virginia

Opinion

We have audited the accompanying financial statements of the Charlottesville – Albemarle Society for the Prevention of Cruelty to Animals, Inc. (the "SPCA"), which comprise the statements of financial position as of December 31, 2022 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. The prior year partially summarized comparative information has been derived from the SPCA's 2021 financial statements and in our report dated May 19, 2022 we expressed an unmodified opinion on those financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SPCA as of December 31, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SPCA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the SPCA's ability to continue as a going concern for a reasonable period of time.

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 21, 2023

CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 791,390	$ 594,278
Investments (Note 2)	6,021,151	6,776,935
Accounts receivable	120,970	78,256
Employee retention credit receivable	415,345	1,621,403
Other current assets	84,779	99,197
Total current assets	7,433,635	9,170,069
PROPERTY AND EQUIPMENT, net (Note 5)	7,299,036	7,534,063
OTHER ASSETS		
Beneficial interest in Bleecker Trust (Notes 2 and 10)	733,888	927,366
USDA loan reserve (Note 7)	196,471	196,471
Restricted cash held for Pace endowment (Note 10)	26,000	26,000
Total other assets	956,359	1,149,837
Total assets	$ 15,689,030	$ 17,853,969
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 66,316	$ 75,832
Accrued expenses (Note 6)	150,016	169,151
Current portion – notes payable (Note 7)	129,296	123,463
Total current liabilities	345,628	368,446
LONG-TERM LIABILITIES		
Notes payable (Note 7)	1,381,895	1,511,197
Total liabilities	1,727,523	1,879,643
NET ASSETS		
Without donor restrictions	13,098,726	14,764,614
With donor restrictions (Note 9)	862,781	1,209,712
Total net assets	13,961,507	15,974,326
Total liabilities and net assets	$ 15,689,030	$ 17,853,969

The Notes to Financial Statements are an integral part of these statements.

CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

STATEMENTS OF ACTIVITIES
Year Ended December 31, 2022 and Summarized for the Year Ended December 31, 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions and gifts	$ 1,356,480	$ 219,186	$ 1,575,666	$ 1,748,842
Grants	199,335	-	199,335	221,853
Bequests	131,705	-	131,705	29,639
Local government appropriations	959,524	-	959,524	925,443
Special events, net of related expenses of $337,718	347,119	-	347,119	364,764
Rummage store sales	553,489	-	553,489	569,087
Program services fees	993,991	-	993,991	869,641
In-kind contributions	115,126	-	115,126	34,889
Income distributions from the Bleecker Trust	44,561	-	44,561	36,521
Investment income	101,702	-	101,702	80,381
Realized and unrealized gains on investments	(1,199,296)	-	(1,199,296)	1,199,382
Employee Retention Credit income	-	-	-	1,621,403
Miscellaneous income	3,062	-	3,062	14,957
Change in value of beneficial interest in Bleecker Trust	-	(197,768)	(197,768)	58,834
Net assets released from restrictions (Note 11)	368,349	(368,349)	-	-
Total revenue, gains, and other support	3,975,147	(346,931)	3,628,216	7,775,636
EXPENSES				
Program services	4,600,510	-	4,600,510	4,346,663
Management and general	457,161	-	457,161	432,582
Fundraising	583,364	-	583,364	738,251
Total expenses	5,641,035	-	5,641,035	5,517,496
Change in net assets	(1,665,888)	(346,931)	(2,012,819)	2,258,140
Beginning net assets	14,764,614	1,209,712	15,974,326	13,716,183
Ending net assets	$ 13,098,726	$ 862,781	$ 13,961,507	$ 15,974,323

The Notes to Financial Statements are an integral part of these statements.

CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022 and Summarized for the Year Ended December 31, 2021

	2022				2021
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 2,397,058	$ 296,785	$ 283,012	$ 2,976,855	$ 2,851,201
Payroll taxes	205,778	25,540	24,338	255,656	198,157
Employee benefits	322,728	40,055	38,171	400,954	436,559
External veterinarians	32,897	-	-	32,897	58,949
Pet care	162,797	-	-	162,797	87,808
Clinic	340,980	-	-	340,980	353,969
Cleaning and janitorial	77,719	-	-	77,719	83,823
Utilities	110,482	3,526	3,526	117,534	107,000
Repairs and maintenance	100,605	-	-	100,605	92,464
Miscellaneous	36,225	2,871	20	39,116	19,116
Rent	158,044	-	-	158,044	153,441
Supplies and office systems	65,864	28,299	65,870	160,033	133,669
Equipment	18,002	-	-	18,002	4,288
Telephone	23,707	892	892	25,491	26,389
In-kind services	112,526	-	-	112,526	34,889
Insurance	71,766	2,585	2,585	76,936	64,320
Professional fees	16,846	34,776	13,134	64,756	73,117
Recruiting	-	10,772	-	10,772	8,516
Other fundraising	-	-	140,756	140,756	113,557
Employee retention credit fees	-	-	-	-	243,210
Loss on disposal of assets	-	-	-	-	3,299
Total expenses before depreciation and interest	4,254,024	446,101	572,304	5,272,429	5,147,741
Depreciation	278,099	8,876	8,876	295,851	291,422
Interest	68,387	2,184	2,184	72,755	78,333
Total expenses	$ 4,600,510	$ 457,161	$ 583,364	$ 5,641,035	$ 5,517,496

The Notes to Financial Statements are an integral part of these statements.

CHARLOTTESVILLE – ALBEMARLE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	$ (2,012,819)	$ 2,258,143
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Realized and unrealized (gain)/loss on investments	1,199,296	(1,199,382)
Depreciation	295,851	291,422
Loss on disposal of property and equipment	-	3,299
Change in value of Bleecker Trust	193,478	(57,331)
(Increase) decrease in assets:		
Accounts receivable	(42,714)	76,695
Employee retention credit receivable	1,206,058	(1,621,403)
Other current assets	14,418	(19,293)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(28,651)	45,973
Net cash and cash equivalents provided by (used in) operating activities	824,917	(221,877)
INVESTING ACTIVITIES		
Sales of investments	(284,322)	1,454,581
Purchases of investments	(159,191)	(888,194)
Sale of property and equipment	-	(63,044)
Purchase of property and equipment	(60,823)	(124,556)
Net cash and cash equivalents provided by (used in) investing activities	(504,336)	378,787
FINANCING ACTIVITIES		
Principal repayments on notes payable	(123,469)	(117,899)
Net cash and cash equivalents used in financing activities	(123,469)	(117,899)
Net increase in cash and cash equivalents	197,112	39,011
CASH AND CASH EQUIVALENTS		
Beginning	594,278	555,267
Ending	$ 791,390	$ 594,278
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	$ 68,097	$ 88,534

The Notes to Financial Statements are an integral part of these statements.

Note 1. Significant Accounting Policies

The Charlottesville – Albemarle Society for the Prevention of Cruelty to Animals, Inc. (the "SPCA") provides a safe environment for the lost, abandoned, and homeless animals of Charlottesville and Albemarle County and places them in good homes. The SPCA strives to set a standard of excellence and leadership in animal care, humane education, and progressive animal welfare programs.

The following programs and supporting services are included in the accompanying financial statements:

Animal care and spay/neuter resources: The SPCA provides shelter, nourishment, and vaccinations for the animals which are brought to it. The SPCA also provides medical care treating minor illnesses frequently and often more severe medical conditions, including emergency veterinarian treatment. The SPCA spays or neuters each animal prior to adoption. In addition to assuring all the SPCA animals are spayed or neutered, the SPCA provides subsidized and free spay/neuter programs for low-income residents.

Adoption: The SPCA evaluates all animals for behavior and health issues prior to adoption. The SPCA finds homes for all healthy and behaviorally sound animals.

Management and general: This includes the functions necessary to ensure an adequate working environment, provide coordination and articulation of the SPCA's program strategy, and manage the financial and budgetary responsibilities of the SPCA.

Fundraising: This provides the structure necessary to encourage and secure private financial support.

Basis of financial statement presentation and accounting

The financial statements of the SPCA have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

The accompanying financial statements present information regarding the SPCA's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. The two classes are differentiated based on the existence or absence of donor-imposed restrictions.

Net Assets without Donor Restrictions are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Note 1. Significant Accounting Policies (Continued)

Basis of financial statement presentation and accounting (Continued)

Net Assets with Donor Restrictions are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the SPCA pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

Cash and cash equivalents

Cash and cash equivalents consist of bank deposits and amounts invested in certificates of deposit with no permanently imposed donor restrictions. Short-term, highly liquid investments, such as mutual and money market funds that are components of externally managed investment portfolios, are classified as investments.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values, as determined by quoted market prices, in the statements of financial position. Net unrealized and realized gains or losses are reflected in the statements of activities.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date.

Accounts receivable

Accounts receivable are unsecured and are mainly due from local animal shelters and rescue groups. Management has determined that an allowance for uncollectible accounts is not necessary, as it follows the direct write-off method. The write-off method is believed to approximate the allowance method.

Property and equipment

Property and equipment is stated at cost or at fair value at the date of gift, less accumulated depreciation. Expenditures for new construction, major renewals and replacements, and equipment exceeding $1,000 are generally capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	10-40 years
Furniture, fixtures, and equipment	3-15 years

Note 1. Significant Accounting Policies (Continued)

Contributions

Contributions, including contributions receivable, are recognized as net assets with donor restrictions or net assets without donor restrictions, depending on the existence or absence of any donor restrictions, in the period the donor's commitment is received. Unconditional promises to give are recognized as net assets with donor restrictions revenues unless the donor explicitly stipulates its use to support current period activities.

Contributions of assets other than cash are recorded at their fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received with donor-imposed restrictions are reported as revenues of net assets with donor restrictions, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are recorded as revenues of net asset with donor restrictions, and a reclassification to net asset without donor restrictions is made to reflect the expiration of such restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of net assets without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of net assets with donor restrictions; the restrictions are considered to be released when the assets are placed in service.

In-kind contributions are received to support the operations of various programs and special events and are recognized at fair value.

Beneficial interest in Bleecker Trust

The SPCA participates in a split-interest agreement that is unconditional and irrevocable. This arrangement was established when a donor created the Bleecker Trust from which the SPCA receives benefits. The SPCA accounts for this agreement by recording its share of the present value of the estimated future cash receipts from the trust (which approximates its share of the related assets of the trust).

Note 1. Significant Accounting Policies (Continued)

Functional allocation of expenses

The costs of providing the SPCA's programs and support services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program and support services benefited.

Fair value measurements

The SPCA carries various assets at fair value. 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. In determining fair value, a market-based approach is used. Additionally, the SPCA categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as reflected below. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that management has the ability to access at the measurement date.

Level 2 – Fair values are based on inputs other than quoted prices that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Fair values are based on unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

Credit risk concentrations

Financial instruments which potentially subject the SPCA to concentrations of credit risk consist principally of cash and cash equivalents, investments, and the USDA loan reserve. A portion of the SPCA's bank deposits are in excess of federally insured limits.

Income taxes

The SPCA is an organization described in *Internal Revenue Code* ("*IRC*") §501(c)(3) and accordingly, is exempt from federal and state income taxes under *IRC* §501(a). The SPCA has also been classified as an organization which is not a private foundation under *IRC* §509(a)(2). Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

Note 1. Significant Accounting Policies (Continued)

Comparative information

The financial statements include certain prior year summarized comparative information (statement of activities and statement of functional expenses) in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the prior year from which the summarized information was derived.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Revenue recognition

The SPCA assesses new contracts and identifies related performance obligations for promises to transfer distinct goods or services to customers. Revenue is recognized as performance obligations until the terms of a contract are satisfied. The SPCA charges fees for adoptions, spay/neuter, rummage store, clinic and other services which are recognized at the point of sale.

The SPCA receives support through grants. Grant revenue is recognized and recorded upon receipt. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the SPCA with the requirements of the grant in effect for the term of the grant.

The Organization also receives contributions from local governments, businesses and the general public. Revenue generated from fundraising activities are recorded in the period the donor's commitment is received and are not considered contractual in nature. See Note 9 and 11 for discussion on net assets with donor restrictions and releases from restrictions, respectively.

The SPCA receives revenue from Rummage Store sales and programs including adoption fees that are recognized as revenue upon receipt. Refer to Note 13 for further information.

Contributions received and contributions made

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on the characterizing grants and similar contracts with resource providers as either exchange transactions or contributions. The SPCA adopted this guidance effective January 1, 2020. The adoption of ASU 2018-08 did not result in any significant changes to the accounting for any of the SPCA's material revenue streams.

Note 1. Significant Accounting Policies (Continued)

Subsequent events

Subsequent events have been evaluated through April 21, 2023, the date the financial statements were available to be issued.

Note 2. Investments

Investments consist of the following:

	2022	2021
Money market funds	$ 380,414	$ 581,365
US Treasury bills	1,085,723	
Mutual funds – equities:		
Information technology	1,715,126	2,579,070
Healthcare	530,511	-
Financial service	489,097	802,299
Air freight and delivery	-	219,239
Basic materials	-	567,759
Oil and gas	274,056	547,506
Commercial transportation	-	173,845
Consumer cyclical	284,284	243,186
Fashion	309,528	-
Food service	386,880	-
Retail	286,469	206,729
Auto manufacturers	279,063	688,338
Other assets	-	167,599
	$ 6,021,151	$ 6,776,935

Note 2. Investments (Continued)

The following is a summary of the inputs used in determining the fair values of financial assets measured on a recurring basis:

	2022			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Investments:				
Money market funds	$ 380,414	$ 380,414	$ -	$ -
US Treasury bills	1,085,723	1,085,723	-	-
Mutual funds – equities	4,555,014	4,555,014	-	-
Beneficial interest in Bleecker Trust	733,888	-	733,888	-
Total financial assets	$ 6,755,039	$ 6,021,151	$ 733,888	$ -

	2021			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Investments:				
Money market funds	$ 581,365	$ 581,365	$ -	$ -
Other assets	167,599	167,599	-	-
Mutual funds – equities	6,027,971	6,027,971	-	-
Beneficial interest in Bleecker Trust	927,366	-	927,366	-
Total financial assets	$ 7,704,301	$ 6,776,935	$ 927,366	$ -

Level 2 assets are valued by a third party using inputs other than quoted prices in Level 1 and include values of similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The fair value of investments is determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of funds held in trust by others is determined by the present value of expected future cash flows.

Note 3. Conditional Contributions

At December 31, 2022, the SPCA had received bequests, intentions, and other conditional contributions receivable that were unable to be valued as of the date of the financial statements. These intentions to give are not recognized as assets until the conditions are essentially satisfied and valuation is determined.

Note 4. Liquidity and Availability

The following table reflects the SPCA's financial assets as of December 31, 2022, reduced for amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action.

The SPCA has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the SPCA keeps three months of operating expenses and one year of debt service available at all times. The SPCA invests cash in excess of current needs in various certificates of deposit and investment accounts.

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 791,390	$ 594,278
Investments	6,021,151	6,776,935
Accounts receivable	536,315	78,256
Beneficial interest in Bleecker Trust	733,888	927,366
USDA loan reserve	196,471	196,471
Pace endowment	26,000	26,000
Total financial assets	8,305,215	8,599,306
Less those unavailable for general expenditure within one year:		
Beneficial interest in Bleecker Trust	(733,888)	(927,366)
USDA loan reserve	(196,471)	(196,471)
Restricted cash held for Pace endowment	(26,000)	(26,000)
Other purpose restrictions	(102,893)	(256,346)
Total unavailable assets	(1,059,252)	(1,406,183)
Financial assets available to meet cash needs for general expenditures within one year	$ 7,245,963	$ 7,193,123

Note 5. Property and Equipment

Property and equipment consist of the following:

	2022	2021
Land	$ 1,914,467	$ 1,914,467
Construction in progress	92,077	92,077
Buildings and improvements	8,402,986	8,297,714
Furniture, fixtures, and equipment	990,736	910,629
	11,400,266	11,214,887
Less: Accumulated depreciation	(4,101,230)	(3,573,703)
Net property and equipment	$ 7,299,036	$ 7,641,184

Construction in progress balance relates to Phases 2-4 of the Cat Facility.

Note 6. Accrued Expenses

Accrued expenses consist of the following:

	2022	2021
Interest	$ 3,064	$ 3,314
Vacation	31,867	44,847
Salaries	90,383	93,666
Other	24,702	27,324
	$ 150,016	$ 169,151

Note 7. Notes Payable

Notes payable consist of the following:

	2022	2021
USDA construction loan, interest at 4.625%, annual installments, including interest, of $196,471 through October 2032, secured by a deed of trust.	$ 1,511,191	$ 1,634,660
Less current portion	(129,296)	(123,463)
	$ 1,381,895	$ 1,511,197

Debt matures as follows:

2023	$ 129,296
2024	135,404
2025	141,801
2026	148,501
2027	155,516
Thereafter	800,673
	$ 1,511,191

The USDA construction loan security agreement requires the SPCA to establish a reserve account of $196,471, which is equal to one annual installment of principal and interest. It may be used to pay certain costs as approved by the lender.

Note 8. Employee Benefits

Retirement benefits are provided for eligible employees through a simple IRA plan. The SPCA switched from a SIMPLE IRA plan to a Safe Harbor 401k in January 2020. The SPCA contributes a Safe Harbor Match of 100% on salary deferrals up to 3% of compensation plus 50% on deferrals between 3% and 5% of compensation. Contributions to this plan for 2022 and 2021 were $27,866 and $28,284, respectively.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of:

	2022	2021
Endowments	$ 759,888	$ 953,366
Capital contributions	102,893	256,346
	$ 862,781	$ 1,209,712

Note 10. Endowments

Endowments are composed of the following:

	2022	2021
Bleecker Trust	$ 733,888	$ 927,366
Pace Endowment	26,000	26,000
	$ 759,888	$ 953,366

The following schedule summarizes changes in endowment net assets:

	2022	2021
Endowment net assets, beginning of year	$ 953,366	$ 896,035
Investment return:		
Interest and dividends	26,313	18,647
Realized and unrealized gains/(loss)	(162,578)	89,192
Investment fees	(12,652)	(13,987)
Total investment return	(148,917)	93,852
Distributions	(44,561)	(36,521)
Endowment net assets, end of year	$ 759,888	$ 953,366

Note 10. Endowments (Continued)

The SPCA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner to preserve and expand the SPCA's purchasing power in perpetuity through sustained growth in its investment assets. To satisfy its investment objective, the SPCA relies on an overall investment program that is prudently diversified across a variety of asset classes, economic characteristics, and security issuers. The intended target rate of return over a full market cycle should be at least adequate to compensate for the total of the targeted spending, prevailing inflation, and anticipated SPCA expenses of the same period. Actual returns in any given year may vary from the targeted rate of return. The investment strategy includes target asset allocations, acceptable ranges around those targets, and a rebalancing policy.

The SPCA is permitted to use all interest earned on the PACE endowment towards operations. The Bleecker Trust distributes up to 5% of the net fair value of the assets in the trust to the SPCA throughout the year.

Note 11. Net Assets Released from Restrictions

Net assets released from restrictions for capital improvements were $253,920 and $99,006 in 2022 and 2021, respectively.

Note 12. Leases

The SPCA is currently obligated under a lease for facilities through December 31, 2023 and a copier lease through October 31, 2024. As of the report date, the SPCA is pursuing a renewal agreement for the facility lease for an additional three year term, however no agreement has been made. Future minimum lease payments are as follows:

2023	$ 165,533
2024	2,300
	$ 167,833

FASB ASC 842 Leases was effective beginning January 1, 2022. The SPCA reviewed their leases and determined that the copier lease that meets the guidelines of ASC 842 is not material to the financial statements as a whole. The SPCA will evaluate each year.

Note 13. Revenue Recognition

The SPCA assesses new contracts and identifies related performance obligations for promises to transfer distinct goods or services to customers. Revenue is recognized as performance obligations under the terms of a contract are satisfied. The SPCA charges fees for adoptions, spay/neuter, rummage store, clinic, and other services which are recognized at the point of sale.

The following table summarizes revenue by the SPCA's main sources of revenue for the years ended December 31:

	2022	2021
Contracts with customers:		
Adoptions	$ 559,511	$ 428,795
Spay/Neuter	249,809	274,000
Rummage Store	553,489	569,087
Clinic services	101,844	95,908
All others	82,827	70,938
Local government appropriations	959,524	925,443
	$ 2,507,004	$ 2,364,171

Contract balances:

	2022	2021
Accounts receivable		
Beginning of year	$ 78,256	$ 154,951
End of year	120,970	78,256

Economic factors:

Since the SPCA generates its revenue from individuals out of their discretionary income, its revenue sources are directly linked to the local and regional economy. These factors could impact the amount, timing, and uncertainty of revenue and cash flows.