

**MARYLAND SPCA, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**Independent Auditor's Report**

To the Board of Directors  
Maryland SPCA, Inc.

We have audited the accompanying financial statements of Maryland SPCA, Inc. (the Society) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, 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 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 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 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maryland SPCA, Inc. as of December 31, 2017 and 2016, 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.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
May 29, 2018

**MARYLAND SPCA, INC.**  
**Statements of Financial Position**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 689,592	\$ 954,792
Pledges receivable (current portion)	21,867	12,000
Note receivable (current portion)	3,000	-0-
Prepaid expenses	141,466	179,857
Accrued interest receivable	4,540	1,658
Investments (current portion)	24,161,960	21,690,470
Total Current Assets	<u>25,022,425</u>	<u>22,838,777</u>
<b>Property</b> , net of accumulated depreciation	<u>2,931,935</u>	<u>3,099,445</u>
<b>Other Assets</b>		
Pledges receivable (long-term portion)	-0-	6,000
Note receivable (long-term portion)	9,000	-0-
Investments (long-term portion)	65,644	65,644
Beneficial interest in endowment fund	203,664	194,765
Total Other Assets	<u>278,308</u>	<u>266,409</u>
<b>Total Assets</b>	<u><u>\$ 28,232,668</u></u>	<u><u>\$ 26,204,631</u></u>

	<u>2017</u>	<u>2016</u>
<b>Liabilities And Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 145,048	\$ 145,636
Accrued expenses	140,150	119,183
Total Current Liabilities	<u>285,198</u>	<u>264,819</u>
<b>Commitments And Contingencies</b> (Note 10)		
<b>Net Assets</b>		
Unrestricted:		
Undesignated	24,537,310	22,964,754
Board designated	1,341,703	1,110,043
Total Unrestricted	<u>25,879,013</u>	<u>24,074,797</u>
Temporarily restricted	<u>1,799,149</u>	1,604,606
Permanently restricted:		
Endowment fund	65,644	65,644
Beneficial interest in endowment fund	203,664	194,765
Total Permanently Restricted	<u>269,308</u>	<u>260,409</u>
Total Net Assets	<u>27,947,470</u>	25,939,812
<b>Total Liabilities and Net Assets</b>	<u>\$ 28,232,668</u>	<u>\$ 26,204,631</u>

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

**MARYLAND SPCA, INC.**  
**Statements of Activities**  
**Years Ended December 31, 2017 and 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Support and Revenue</b>				
Contributions	\$ 2,578,918	\$ 129,641	\$ -0-	\$ 2,708,559
Bequests and legacies	296,964	-0-	-0-	296,964
Wellness Clinic	1,139,603	-0-	-0-	1,139,603
Investment income, net	2,839,530	216,719	-0-	3,056,249
Special events	790,427	-0-	-0-	790,427
Spay/neuter fees	266,246	-0-	-0-	266,246
Adoptions	228,222	-0-	-0-	228,222
Training and other fees	138,865	-0-	-0-	138,865
Crematorium	13,193	-0-	-0-	13,193
Surrender donations	17,246	-0-	-0-	17,246
Unrealized gain on beneficial interest in endowment fund	-0-	-0-	8,899	8,899
Loss on disposal of property	(263)	-0-	-0-	(263)
Miscellaneous	19,493	-0-	-0-	19,493
Net assets released from restrictions:				
Satisfaction of program restrictions	151,817	(151,817)	-0-	-0-
Total Support and Revenue	<u>8,480,261</u>	<u>194,543</u>	<u>8,899</u>	<u>8,683,703</u>
<b>Expenses</b>				
Program services	<u>5,288,372</u>	-0-	-0-	<u>5,288,372</u>
Support services				
Management and general	451,205	-0-	-0-	451,205
Fundraising	936,468	-0-	-0-	936,468
Total Support Services	<u>1,387,673</u>	-0-	-0-	<u>1,387,673</u>
Total Expenses	<u>6,676,045</u>	-0-	-0-	<u>6,676,045</u>
<b>Change in Net Assets</b>	1,804,216	194,543	8,899	2,007,658
<b>Net Assets at Beginning of Year</b>	<u>24,074,797</u>	<u>1,604,606</u>	<u>260,409</u>	<u>25,939,812</u>
<b>Net Assets at End of Year</b>	<u>\$ 25,879,013</u>	<u>\$ 1,799,149</u>	<u>\$ 269,308</u>	<u>\$ 27,947,470</u>

**2016**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 2,699,417	\$ 93,005	\$ -0-	\$ 2,792,422
4,886,831	-0-	-0-	4,886,831
970,688	-0-	-0-	970,688
904,122	83,520	-0-	987,642
703,922	-0-	-0-	703,922
315,463	-0-	-0-	315,463
265,474	-0-	-0-	265,474
129,035	-0-	-0-	129,035
14,535	-0-	-0-	14,535
13,938	-0-	-0-	13,938
-0-	-0-	10,583	10,583
(2,151)	-0-	-0-	(2,151)
5,718	-0-	-0-	5,718
71,698	(71,698)	-0-	-0-
<u>10,978,690</u>	<u>104,827</u>	<u>10,583</u>	<u>11,094,100</u>
<u>4,885,968</u>	<u>-0-</u>	<u>-0-</u>	<u>4,885,968</u>
464,348	-0-	-0-	464,348
973,250	-0-	-0-	973,250
<u>1,437,598</u>	<u>-0-</u>	<u>-0-</u>	<u>1,437,598</u>
<u>6,323,566</u>	<u>-0-</u>	<u>-0-</u>	<u>6,323,566</u>
4,655,124	104,827	10,583	4,770,534
<u>19,419,673</u>	<u>1,499,779</u>	<u>249,826</u>	<u>21,169,278</u>
<u>\$ 24,074,797</u>	<u>\$ 1,604,606</u>	<u>\$ 260,409</u>	<u>\$ 25,939,812</u>

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

**MARYLAND SPCA, INC.**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2017 and 2016**

	2017			
	Program Services	Management and General	Fundraising	Total
<b>Salaries and related expenses</b>				
Salaries and payroll taxes	\$ 3,061,733	\$ 102,074	\$ 215,524	\$ 3,379,331
Employee benefits	356,922	3,912	2,795	363,629
Total Salaries and Related Expenses	<u>3,418,655</u>	<u>105,986</u>	<u>218,319</u>	<u>3,742,960</u>
<b>Other Expenses</b>				
Veterinary supplies and services	918,820	-0-	-0-	918,820
Direct mail campaign	-0-	-0-	412,802	412,802
Depreciation	267,188	1,558	7,784	276,530
Repairs and maintenance	203,784	16,802	-0-	220,586
Special events	-0-	-0-	201,232	201,232
Accounting	-0-	127,468	-0-	127,468
Animal care and food	110,394	-0-	-0-	110,394
Computer and software support	-0-	93,935	-0-	93,935
Office supplies and printing	38,548	20,727	27,961	87,236
Utilities	69,161	5,464	-0-	74,625
Bank service fees	62,183	-0-	-0-	62,183
Telephone	58,235	-0-	-0-	58,235
Consultants	-0-	55,549	-0-	55,549
Fundraising fees	-0-	-0-	49,377	49,377
Insurance	46,896	-0-	-0-	46,896
Postage	3,634	3,155	11,993	18,782
Advertising	8,703	-0-	7,000	15,703
Meetings and conferences	6,975	7,682	-0-	14,657
Rent	14,400	-0-	-0-	14,400
Taxes, licenses and fees	4,668	7,824	-0-	12,492
Travel expenses	8,630	-0-	-0-	8,630
Volunteer expense	8,248	-0-	-0-	8,248
Dues and subscriptions	-0-	5,055	-0-	5,055
Foster program	2,334	-0-	-0-	2,334
Education and outreach	2,273	-0-	-0-	2,273
Cremation	2,201	-0-	-0-	2,201
Recruitment	-0-	-0-	-0-	-0-
Miscellaneous	32,442	-0-	-0-	32,442
Total Other Expenses	<u>1,869,717</u>	<u>345,219</u>	<u>718,149</u>	<u>2,933,085</u>
Total Expenses	<u>\$ 5,288,372</u>	<u>\$ 451,205</u>	<u>\$ 936,468</u>	<u>\$ 6,676,045</u>



**2016**

<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
\$ 2,849,598	\$ 116,991	\$ 228,928	\$ 3,195,517
290,344	9,027	17,121	316,492
<u>3,139,942</u>	<u>126,018</u>	<u>246,049</u>	<u>3,512,009</u>
747,942	-0-	-0-	747,942
-0-	-0-	416,505	416,505
260,145	1,412	7,057	268,614
255,643	13,341	-0-	268,984
-0-	-0-	160,016	160,016
-0-	136,494	-0-	136,494
140,735	-0-	-0-	140,735
-0-	101,677	-0-	101,677
26,249	29,392	40,287	95,928
72,191	5,229	-0-	77,420
57,192	-0-	-0-	57,192
44,490	-0-	-0-	44,490
-0-	-0-	-0-	-0-
-0-	-0-	74,266	74,266
43,334	-0-	-0-	43,334
4,382	3,737	18,245	26,364
7,684	-0-	10,825	18,509
12,257	2,356	-0-	14,613
14,400	-0-	-0-	14,400
4,703	7,095	-0-	11,798
11,067	-0-	-0-	11,067
8,084	-0-	-0-	8,084
-0-	11,417	-0-	11,417
3,218	-0-	-0-	3,218
1,994	-0-	-0-	1,994
1,193	-0-	-0-	1,193
-0-	26,180	-0-	26,180
29,123	-0-	-0-	29,123
<u>1,746,026</u>	<u>338,330</u>	<u>727,201</u>	<u>2,811,557</u>
<u>\$ 4,885,968</u>	<u>\$ 464,348</u>	<u>\$ 973,250</u>	<u>\$ 6,323,566</u>

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

**MARYLAND SPCA, INC.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 2,007,658	\$ 4,770,534
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	276,530	268,614
Net gains on investments	(2,750,984)	(799,813)
Unrealized gain on beneficial interest in endowment fund	(8,899)	(10,583)
Loss on disposal of property	263	2,151
Contributions restricted for investment in property	(20,004)	(57,250)
Donated stock	(173,144)	(84,929)
Changes in operating assets and liabilities:		
Pledges receivable	(3,867)	(18,000)
Prepaid expenses	38,391	(46,757)
Accrued interest receivable	(2,882)	(1,658)
Note receivable	(12,000)	-0-
Accounts payable	(588)	71,644
Accrued expenses	20,967	(3,537)
Net Cash Provided by (Used in) Operating Activities	<u>(628,559)</u>	<u>4,090,416</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	4,298,123	1,710,378
Purchases of investments	(4,018,629)	(5,148,097)
Net proceeds from the sale of donated stock	173,144	84,929
Purchases of property	(109,283)	(216,112)
Net Cash Provided by (Used in) Investing Activities	<u>343,355</u>	<u>(3,568,902)</u>
<b>Cash Flows from Financing Activities</b>		
Contributions restricted for investment in property	<u>20,004</u>	<u>57,250</u>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(265,200)</b>	<b>578,764</b>
<b>Cash and Cash Equivalents, at Beginning of Year</b>	<b><u>954,792</u></b>	<b><u>376,028</u></b>
<b>Cash and Cash Equivalents, at End of Year</b>	<b><u>\$ 689,592</u></b>	<b><u>\$ 954,792</u></b>

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

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 1: Summary of Significant Accounting Policies**

Maryland SPCA, Inc. (the Society) has been recognized by the Internal Revenue Service (IRS) as a not-for-profit, tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code (IRC) that is publicly supported and, therefore, is not a private foundation. The Society is an animal welfare organization founded in 1869 to provide food, water and shelter to the area's unwanted and abandoned animals. The Society's mission is to improve the lives of pets and people in the community. Through annual fundraising and other revenue generating efforts the Society also promotes the respect, love and welfare of all animals through specialized programs and education. The Society helps find homes for unwanted dogs and cats through an adoption program; provides shelter for abandoned and neglected animals; provides spay/neuter and wellness programs; and provides a lost and found service.

The accounting and reporting policies of the Society conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Financial Statement Presentation: The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting: The financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Society classifies all investments which are readily convertible to cash (except for investments held by investment custodians) and which have a maturity of three months or less when purchased as cash equivalents.

Pledges Receivable: Unconditional promises to give are recorded as pledges receivable and recognized as revenue in the period the pledge is received. A provision is made for uncollectible pledges based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding pledges receivable. Pledges receivable are written off by management when, in its determination, all appropriate collection efforts have been taken. The Society has not established an allowance for uncollectible pledges as of December 31, 2017 and 2016, as management believes all pledges will be collected.

Investments: Investments with readily determinable fair values are reported at fair value in the statements of financial position. Investments, whose fair values are not readily determinable, are recorded at cost. 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 statements of activities as part of investment income, net.

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 1: Summary of Significant Accounting Policies (Continued)**

The Society invests in a professionally managed portfolio that may contain corporate stock, mutual funds, hedge funds, money market funds and other investments. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Property and Depreciation: Property is recorded at cost or, if donated, at fair value at the date of gift, less accumulated depreciation. It is the Society's policy to capitalize all property acquisitions in excess of \$500 having useful lives of longer than one year. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized. Depreciation is computed using the straight-line method and is charged to expense over the estimated useful lives of the assets as follows:

Building and improvements	15-30 years
Furniture and equipment	5-10 years
Motor vehicles	5-10 years

Beneficial Interest in Endowment Funds: Generally accepted accounting principles require not-for-profit beneficiaries of endowment funds held by unrelated parties to record, as a contribution and an asset, the present value of the estimated future cash receipts to be received from the endowment fund, over the life of the endowment fund. Due to the perpetual nature of the fund held by The Baltimore Community Foundation, Inc. (BCF), the future cash flows from this fund cannot be estimated. Under such circumstances, not-for-profits are permitted to base the present value measurement on the fair value of the endowment fund's assets. Changes in the fund's fair value are to be recorded as permanently restricted gains or losses in the statements of activities. Annual income distributions from the fund are recorded as investment income in the statements of activities.

Revenue Recognition: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The Society reports gifts of cash and other assets 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 stipulation time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Society reports gifts of cash and other assets as permanently restricted if they are received with donor stipulations that the funds be maintained permanently.

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 1: Summary of Significant Accounting Policies (Continued)**

The Society reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grant revenue earned that has not yet been received is recorded as grant receivable. Grant revenue received in advance of expenses is deferred.

Fees for services are recognized as revenue when the service is provided and investment income is recognized when earned.

Donated Services: Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Society. During the years ended December 31, 2017 and 2016, there were no in-kind contribution revenues.

In addition, a number of unpaid volunteers have made significant contributions of their time and services to the Society. The value of this contributed time is not recorded as a contribution in these financial statements since the recognition criteria was not met.

Advertising: Advertising costs are charged to expense when incurred. The Society had no significant direct-response advertising.

Functional Allocation of Expense: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated on the basis of estimates of the portion of time expended by the staff on the various functions.

Income Taxes: The Society is exempt from federal and state income taxes under IRC §501(c)(3). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Society did not have any unrelated business income for the years ended December 31, 2017 and 2016. Accordingly, no provision for income taxes is reflected in these financial statements.

The Society's federal exempt organization tax returns are subject to examination by the IRS, generally for a period of three years after the returns are filed.

Subsequent Events: In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through May 29, 2018, the date the financial statements were available to be issued. During the period from January 1, 2018 through May 29, 2018, the Society did not have any material recognizable events.

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 2: Note Receivable**

In July 2015, the Society entered into an agreement with an unrelated third party to provide them a right of easement on a specific portion of the Society's property. As part of this agreement, the unrelated third party made a nonrefundable payment of \$10,000 and entered into a promissory note in the amount of \$15,000 as a final payment on this right of easement agreement. The payment of this promissory note was conditional on the unrelated third party receiving a certificate of occupancy, therefore this note was not recorded as an asset during the year ended December 31, 2016. During the year ended December 31, 2017, the certificate of occupancy was received. With the removal of the condition, this note receivable has been recorded by the Society. The promissory note is non-interest bearing and payable in annual installments of \$3,000 due in May of each year. Future minimum payments as of December 31, 2017 are as follows:

2018	\$	3,000
2019		3,000
2020		3,000
2021		3,000
		<u>12,000</u>
	\$	<u>12,000</u>

**Note 3: Investments**

A summary of the investment portfolio is as follows at December 31, 2017 and 2016:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Common and preferred stocks	\$ 6,528,668	\$ 4,438,583	\$ 5,901,588	\$ 4,835,083
Equity mutual funds	4,874,861	4,191,459	3,138,423	3,065,327
Fixed income mutual funds	3,965,898	3,896,826	2,366,735	2,352,560
Money market funds	3,748,478	3,748,478	3,407,770	3,407,770
ETF mutual funds	3,629,636	2,820,591	2,918,111	2,710,299
Publicly traded hedge funds	881,220	818,206	2,494,706	2,542,500
Governmental securities	379,075	381,453	-0-	-0-
Corporate bonds	219,768	219,518	-0-	-0-
Alternative investments	-0-	-0-	549,195	570,495
Certificates of deposit	-0-	-0-	979,541	980,000
Mortgage-back securities	-0-	-0-	45	-0-
Total investments	24,227,604	<u>\$ 20,515,114</u>	21,756,114	<u>\$ 20,464,034</u>
Investments classified as long-term:				
Endowment Funds	<u>65,644</u>		<u>65,644</u>	
Investments, current portion	<u>\$ 24,161,960</u>		<u>\$ 21,690,470</u>	

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 3: Investments (Continued)**

Investment income, net for the year ended December 31, 2017 consists of the following components:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 393,822	\$ 28,608	\$ -0-	\$ 422,430
Net gain on investments	2,554,944	196,040	-0-	2,750,984
Investment expenses	(109,236)	(7,929)	-0-	(117,165)
	<u>\$ 2,839,530</u>	<u>\$ 216,719</u>	<u>\$ -0-</u>	<u>\$ 3,056,249</u>

Investment income, net for the year ended December 31, 2016 consists of the following components:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 282,357	\$ 24,583	\$ -0-	\$ 306,940
Net gain on investments	731,255	68,558	-0-	799,813
Investment expenses	(109,490)	(9,621)	-0-	(119,111)
	<u>\$ 904,122</u>	<u>\$ 83,520</u>	<u>\$ -0-</u>	<u>\$ 987,642</u>

**Note 4: Property**

Property consists of the following as of December 31, 2017 and 2016:

	2017	2016
Land	\$ 46,150	\$ 46,150
Building and improvements	3,734,514	3,719,183
Furniture and equipment	1,208,978	1,135,190
Motor vehicles	138,797	135,597
Total Cost	<u>5,128,439</u>	<u>5,036,120</u>
Less: Accumulated depreciation	<u>2,196,504</u>	<u>1,936,675</u>
	<u>\$ 2,931,935</u>	<u>\$ 3,099,445</u>

**MARYLAND SPCA, INC.**  
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**Note 5: Beneficial Interest in Endowment Fund**

In 2005, the Society entered into an agreement with The Baltimore Community Foundation, Inc. (BCF), a tax-exempt §501(c)(3) organization, to establish an endowment fund with BCF to be known as "The MD SPCA Fund" (the Fund).

The purpose of establishing the Fund was to encourage and enhance contributions, ensure perpetual continuity, and provide professional investment management of the Society's endowment fund. As part of this agreement, the board of directors of the Society authorized the transfer of its own funds to BCF.

The agreement for the Fund stipulates that the principal portion of the Fund will be held in perpetuity and that an amount of the net annual income earned by the Fund, as determined under the BCF's spending policy, will be distributed to the Society for as long as the Society is in existence. If for any reason the Society ceases operations, the agreement with BCF provides that this income will be used for a similar purpose.

The fair value of the Fund held by BCF at December 31, 2017 and 2016 was \$203,664 and \$194,765, respectively, which has been reflected as an asset in the statements of financial position. Gains of \$8,899 and \$10,583, associated with the Fund's change in fair value, have been recognized for the years ended December 31, 2017 and 2016, respectively, in the statements of activities. The Fund made distributions of \$19,870 and \$-0- during the years ended December 31, 2017 and 2016, respectively. These distributions have been reflected as contribution income in the statements of activities.

**Note 6: Fair Value Measurement**

Generally accepted accounting principles establishes a framework for measuring fair value. The framework provides 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 are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



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**Note 6: Fair Value Measurement (Continued)**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation techniques used by the Society include the following:

Certificates of Deposits: Valued using quoted market values in the active market in which the individual certificates are traded.

Money Market Funds: Valued at original cost, which equals fair value.

Common and Preferred Stocks: Valued at the closing price reported on the active market in which the individual securities are traded.

Mutual Funds, Equity, Publicly Traded Hedge Funds, Exchange-Traded Funds and Bond Funds: Valued at the last sales price reported in the active market in which the individual fund is traded.

Alternative Investments: Valued utilizing the net asset valuation provided by the companies, general partners, or estimates of value as determined in good faith by the respective investment manager.

Corporate Fixed Income, U.S. Government Securities, Mortgage-Backed Securities: Valued using inputs such as benchmark yields, reported trades, broker/dealer quotes and issuer spreads.

In determining the appropriate levels, the Society performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

The table below presents the assets measured at fair value on a recurring basis by level within the hierarchy, as of December 31, 2017:

December 31, 2017	Total	Level 1	Level 2	Level 3
Common and preferred stocks	\$ 6,528,668	\$ 6,528,668	\$ -0-	\$ -0-
Equity mutual funds	4,874,861	4,874,861	-0-	-0-
Fixed income mutual funds	3,965,898	3,965,898	-0-	-0-
Money market funds	3,748,478	3,748,478	-0-	-0-
ETF mutual funds	3,629,636	3,629,636	-0-	-0-
Publicly traded hedge funds	881,220	-0-	-0-	881,220
Governmental securities	379,075	379,075	-0-	-0-
Corporate bonds	219,768	219,768	-0-	-0-
Beneficial interest in endowment fund	203,664	-0-	-0-	203,664
	<b>\$ 24,431,268</b>	<b>\$ 23,346,384</b>	<b>\$ -0-</b>	<b>\$ 1,084,884</b>

**MARYLAND SPCA, INC.**  
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**Note 6: Fair Value Measurement (Continued)**

The table below presents the assets measured at fair value on a recurring basis by level within the hierarchy, as of December 31, 2016:

December 31, 2016	Total	Level 1	Level 2	Level 3
Common and preferred stocks	\$ 5,901,588	\$ 5,901,588	\$ -0-	\$ -0-
Money market funds	3,407,770	3,407,770	-0-	-0-
Equity mutual funds	3,138,423	3,138,423	-0-	-0-
ETF mutual funds	2,918,111	2,918,111	-0-	-0-
Publicly traded hedge funds	2,494,706	-0-	-0-	2,494,706
Fixed income mutual funds	2,366,735	2,366,735	-0-	-0-
Certificates of deposit	979,541	979,541	-0-	-0-
Alternative investments	549,195	-0-	-0-	549,195
Mortgage-back securities	45	-0-	45	-0-
Beneficial interest in endowment fund	194,765	-0-	-0-	194,765
	<u>\$ 21,950,879</u>	<u>\$ 18,712,168</u>	<u>\$ 45</u>	<u>\$ 3,238,666</u>

The change in investments for which the Society has used Level 3 inputs to determine fair value, is as follows:

	2017	2016
Balance at beginning of year	\$ 3,238,666	\$ 2,983,783
Contributions	1,416	321,936
Distributions	(2,297,111)	(3,137)
Investment income (loss), net	141,913	(63,916)
Balance at end of year	<u>\$ 1,084,884</u>	<u>\$ 3,238,666</u>

**Note 7: Line of Credit**

In February 2016, the Society entered into a liquidity access line of credit agreement with Morgan Stanley Private Bank (Morgan Stanley). The maximum principal amount of this line of credit as of December 31, 2017 and 2016 was \$8,972,000. The agreement provides for variable interest rate advances, unless the Society specifically requests a fixed rate that must be approved by Morgan Stanley, which are to be paid back under specified terms as defined in the agreement. The monthly variable interest rate is based on the London Interbank Offered Rate (LIBOR) plus an interest rate spread percentage, as determined by Morgan Stanley. The fixed interest rate is based on the LIBOR/Swap Curve plus an interest rate spread as determined at the time of the advance. The line of credit is collateralized by the brokerage accounts held by Morgan Stanley Smith Barney, LLC. Outstanding balances on the line of credit are subject to a prepayment fee if any portion is prepaid prior to an applicable scheduled payment date. There were no outstanding balances against this line of credit as of December 31, 2017 and 2016.

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
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**Note 8: Pension Plan**

The Society has a 403(b) salary deferral retirement plan that covers all employees. Employees may begin making salary deferral contributions on their first day of employment, but their contributions are subject to limitations as set by the IRC. The Society is not required to contribute to the plan, but may make discretionary employer contributions. The Society's employer contributions to the plan were \$33,211 and \$35,274 for the years ended December 31, 2017 and 2016, respectively. The expense is included in employee benefits on the statements of functional expenses.

**Note 9: Net Assets**

Unrestricted Net Assets:

Undesignated net assets - Consists of the resources and obligations related to the daily operations of the Society.

Board designated net assets - Consists of a fund designated by the board of directors (the Board) to be set aside for future capital improvements. This fund will be increased by the amount of depreciation incurred each year and will be replenished based on expectations for future capital improvement spending. The board may elect not to make the annual funding in any year. Distributions from this fund must be approved by the Board.

Board designated net assets were \$1,341,703 and \$1,110,043 as of December 31, 2017 and 2016, respectively, and were restricted for capital improvements.

Temporarily Restricted Net Assets: The Society has several temporarily restricted funds, which may be fully expended but only for the purpose established by the respective donors. Temporarily restricted net assets were available for the following purposes as of December 31, 2017:

	2016	Current Year Activity			2017
		Contributions	Investment Income (Loss)	Released from Restrictions	
Celeste Hutton Library Fund	\$ 43,389	\$ -0-	\$ 6,023	\$ -0-	\$ 49,412
KB/Animal Emergency Fund	22,536	-0-	3,129	-0-	25,665
Shearer Fund	1,309,238	-0-	181,722	(2,273)	1,488,687
Cotton Fund	120,567	-0-	25,845	-0-	146,412
Humane education	17,470	85,585	-0-	(72,012)	31,043
Pop-Up trainings	23,909	-0-	-0-	(4,501)	19,408
Exam equipment	18,500	20,004	-0-	(32,159)	6,345
Time restrictions	18,000	-0-	-0-	(12,000)	6,000
Trail project	7,556	-0-	-0-	(1,740)	5,816
Other Programs	23,441	24,052	-0-	(27,132)	20,361
	<u>\$ 1,604,606</u>	<u>\$ 129,641</u>	<u>\$ 216,719</u>	<u>\$ (151,817)</u>	<u>\$ 1,799,149</u>

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 9: Net Assets (Continued)**

Temporarily restricted net assets were available for the following purposes as of December 31, 2016:

	2015		Prior Year Activity		2016	
		Contributions	Investment Income	Released from Restrictions		
Celeste Hutton Library Fund	\$ 41,092	\$ -0-	\$ 2,297	\$ -0-	\$ 43,389	
KB/Animal Emergency Fund	34,932	525	1,952	(14,873)	22,536	
Shearer Fund	1,241,819	-0-	69,413	(1,994)	1,309,238	
Cotton Fund	110,709	-0-	9,858	-0-	120,567	
Pop-Up trainings	25,000	-0-	-0-	(1,091)	23,909	
Exam equipment	5,000	13,500	-0-	-0-	18,500	
Time restrictions	-0-	18,000	-0-	-0-	18,000	
Humane education	25,000	20,000	-0-	(27,530)	17,470	
Trail project	5,461	8,000	-0-	(5,905)	7,556	
Van	-0-	17,750	-0-	(17,750)	-0-	
Other Programs	10,766	15,230	-0-	(2,555)	23,441	
	<u>\$ 1,499,779</u>	<u>\$ 93,005</u>	<u>\$ 83,520</u>	<u>\$ (71,698)</u>	<u>\$ 1,604,606</u>	

The Society maintains the following three funds that are classified as temporarily restricted:

- Celeste Hutton Library Fund - This fund was established in memory of a former president of the Society. The fund, along with any related investment income, is restricted for the library.
- KB/Animal Emergency Care Fund - This fund, along with any related investment income, is restricted to help benefit animals with serious injuries that require emergency care.
- Shearer Fund - This fund, along with any related investment income, is restricted to education for the humane treatment, benefit and relief of animals.

Permanently Restricted Net Assets: The Society's permanently restricted net assets are composed of one endowment fund, of which the original principal portion of the fund may not be expended, and the beneficial interest in endowment fund (see Note 4).

The Society maintains the following endowment fund:

- Cotton Fund - This fund was established according to the Will of Edyth J. Cotton. The principal is permanently restricted. The Society can use the investment income for general operations, as long as it does not become involved in vivisection and other experimentation with animals. The accumulated income and gains (losses) are recorded as temporarily restricted net assets until released.

The Financial Accounting Standards Board (FASB) issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 9: Net Assets (Continued)**

The board of directors of the Society has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift, 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 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 MUPMIFA. In accordance with MUPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) other resources of the Society.

*Investment Return Objectives, Risk Parameters and Strategies*

The Society has adopted investment and spending policies, approved by the board of directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of not more than 5%, while growing the funds if possible. Therefore, the Society expects its endowment assets, over time, to produce an average annual rate of return that is approximately equal to the risk-free rate (the 10-year Treasury) plus a spread of 200 to 300 basis points over a full market cycle, estimated to be three to ten years, depending on market conditions. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy*

The Society has a policy of appropriating for distribution each year not more than 5% of the average value of the endowment fund's fair value over the trailing twelve quarters. In establishing this policy, the Society considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Society's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

**MARYLAND SPCA, INC.**  
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**December 31, 2017 and 2016**

**Note 9: Net Assets (Continued)**

Endowment net asset composition by type of fund as of December 31, 2017 and 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
<u>December 31, 2017</u>				
Donor-restricted endowment funds	\$ -0-	\$ 146,412	\$ 65,644	\$ 212,056
Beneficial interest in endowment fund	-0-	-0-	203,664	203,664
	<u>\$ -0-</u>	<u>\$ 146,412</u>	<u>\$ 269,308</u>	<u>\$ 415,720</u>
<u>December 31, 2016</u>				
Donor-restricted endowment funds	\$ -0-	\$ 120,567	\$ 65,644	\$ 186,211
Beneficial interest in endowment fund	-0-	-0-	194,765	194,765
	<u>\$ -0-</u>	<u>\$ 120,567</u>	<u>\$ 260,409</u>	<u>\$ 380,976</u>

Changes in endowment net assets as of and for the years ended December 31, 2017 and 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Assets
Endowment net assets, December 31, 2015	\$ -0-	\$ 110,709	\$ 249,826	\$ 360,535
Contributions	-0-	-0-	-0-	-0-
Investment income, net	-0-	9,858	-0-	9,858
Unrealized gain on beneficial interest in endowment fund	-0-	-0-	10,583	10,583
Amounts appropriated for expenditure	-0-	-0-	-0-	-0-
Endowment net assets, December 31, 2016	-0-	120,567	260,409	380,976
Contributions	-0-	-0-	-0-	-0-
Investment gain, net	-0-	25,845	-0-	25,845
Unrealized gain on beneficial interest in endowment fund	-0-	-0-	8,899	8,899
Amounts appropriated for expenditure	-0-	-0-	-0-	-0-
Endowment net assets, December 31, 2017	<u>\$ -0-</u>	<u>\$ 146,412</u>	<u>\$ 269,308</u>	<u>\$ 415,720</u>

**MARYLAND SPCA, INC.**  
**Notes To Financial Statements**  
**December 31, 2017 and 2016**

**Note 10: Operating Lease**

In November 2013, the Society entered into a lease agreement to rent storefront space in White Marsh, Maryland. The lease expired on February 28, 2018 and was not renewed. The lease requires monthly lease payments in the amount of \$1,200. Rent expense under the operating lease was \$14,400 for each of the years ended December 31, 2017 and 2016, respectively. Future minimum rent payments under the remaining term of the lease as of December 31, 2017 are \$2,400.

**Note 11: Certain Significant Risks and Uncertainties**

Cash and Cash Equivalents: The Society maintains its cash balances in a single financial institution. Periodically during the year, the Society's cash balances may exceed federally insured limits. The Society has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

