

**THE ERIE COUNTY SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS**

**Financial Statements
With Independent Auditor's Report**

September 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Erie County Society for the
Prevention of Cruelty to Animals
West Seneca, New York

Report on the Financial Statements

We have audited the accompanying financial statements of The Erie County Society for the Prevention of Cruelty to Animals (the Society) which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 The Erie County Society for the Prevention of Cruelty to Animals as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Erie County Society for the Prevention of Cruelty to Animals' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

February 9, 2018

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FINANCIAL POSITION

September 30, 2017

(With Comparative Financial Information as of September 30, 2016)

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 416,601	\$ 179,394
Cash held on behalf of others	59,583	93,760
Capital campaign current receivables, net of allowance for doubtful accounts of \$10,000 in 2017 and \$30,000 in 2016	109,836	212,458
Inventories	60,665	46,422
Prepaid expenses and other	78,974	120,213
Total current assets	725,659	652,247
Long-Term Receivables, less current maturities		
Capital campaign receivables	77,361	145,746
Mortgage note receivable	94,434	96,441
	171,795	242,187
Other Assets		
Cash designated for new facility	-	3,699,711
Investments	8,922,810	8,002,086
Property and equipment, net	13,611,690	9,017,310
	22,534,500	20,719,107
Total assets	\$ 23,431,954	\$ 21,613,541
LIABILITIES AND NET ASSETS		
Current Liabilities		
Notes payable, bank	\$ -	\$ 349,989
Current maturities of long-term debt	13,345	63,592
Accounts payable, trade	330,375	1,501,007
Accrued expenses	238,058	229,801
Deferred revenue	72,849	-
Cash held on behalf of others	59,583	93,760
Total current liabilities	714,210	2,238,149
Long-Term Debt, less current maturities	936,655	-
Total liabilities	1,650,865	2,238,149
Net Assets		
Unrestricted	20,551,585	17,756,111
Temporarily restricted	342,554	685,441
Permanently restricted	886,950	933,840
Total net assets	21,781,089	19,375,392
Total liabilities and net assets	\$ 23,431,954	\$ 21,613,541

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2017

(With Summarized Financial Information for the year ended September 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Support and revenue:					
Public support:					
Bequests and grants	\$ 1,539,288	-	-	\$ 1,539,288	\$ 1,726,348
Donations	2,848,510	6,445	-	2,854,955	2,857,662
Capital campaign pledges and donations	1,621,648	15,454	-	1,637,102	1,728,364
Other	-	-	-	-	61,884
Special events, net of costs of \$73,448 and \$37,075 in 2017 and 2016, respectively	220,409	-	-	220,409	165,006
Total support	6,229,855	21,899	-	6,251,754	6,539,264
Revenue:					
Fees for services	1,001,358	-	-	1,001,358	993,465
Boutique sales, net of costs of \$146,734 and \$176,273 in 2017 and 2016, respectively	127,533	-	-	127,533	126,494
Dividend and interest income	163,524	1,485	-	165,009	156,034
Gain on investments:					
Realized	318,913	2,896	-	321,809	105,329
Unrealized	774,004	7,091	-	781,095	673,390
Gain on sale of property and equipment	4,544	-	-	4,544	-
Other	21,041	-	-	21,041	3,967
Total support and revenue	8,640,772	33,371	-	8,674,143	8,597,943
Net assets reclassified and released from restrictions:					
Satisfaction of program restrictions	423,148	(423,148)	-	-	-
Reclassification of net assets	-	46,890	(46,890)	-	-
Total net assets reclassified and released from restrictions	423,148	(376,258)	(46,890)	-	-
Expenses:					
Program services:					
Animal care	5,031,606	-	-	5,031,606	4,850,032
Supporting services:					
Management and general	378,660	-	-	378,660	517,572
Fundraising	858,180	-	-	858,180	735,847
Total supporting services	1,236,840	-	-	1,236,840	1,253,419
Total expenses	6,268,446	-	-	6,268,446	6,103,451
Change in net assets	2,795,474	(342,887)	(46,890)	2,405,697	2,494,492
Net assets at beginning of year	17,756,111	685,441	933,840	19,375,392	16,880,900
Net assets at end of year	\$ 20,551,585	\$ 342,554	\$ 886,950	\$ 21,781,089	\$ 19,375,392

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2017

(With Summarized Financial Information for the year ended September 30, 2016)

	Program	Supporting Services			2017	2016
	Services	Management	Fund-	Total		
	Animal	and General	Raising			
	Care					
Salaries	\$ 2,686,303	\$ 200,021	\$ 186,195	\$ 386,216	\$ 3,072,519	\$ 3,180,963
Employee health and retirement benefits	439,240	32,706	30,444	63,150	502,390	648,271
Payroll taxes	241,495	17,982	16,738	34,720	276,215	278,420
Total salaries and related expenses	3,367,038	250,709	233,377	484,086	3,851,124	4,107,654
Agents' costs	22,721	-	-	-	22,721	11,065
Depreciation	273,143	20,783	2,969	23,752	296,895	147,902
Development	-	-	558,493	558,493	558,493	406,254
Food and supplies	235,863	-	-	-	235,863	275,423
Humane education	39,054	-	-	-	39,054	35,227
Insurance	89,851	6,836	977	7,813	97,664	90,236
Interest	23,729	1,805	258	2,063	25,792	18,101
Miscellaneous	17,596	28,708	-	28,708	46,304	45,082
Occupancy	209,256	15,922	2,274	18,196	227,452	183,733
Office supplies	52,391	8,732	26,195	34,927	87,318	57,767
Postage	3,022	756	3,778	4,534	7,556	9,638
Professional fees	162,906	24,915	3,833	28,748	191,654	169,829
Staff education	714	-	-	-	714	2,517
Telephone	38,243	4,780	4,781	9,561	47,804	40,791
Transportation	68,120	7,569	-	7,569	75,689	56,671
Travel and dues	4,890	2,445	2,445	4,890	9,780	31,179
Veterinary care	399,568	-	-	-	399,568	373,855
Website maintenance	23,501	4,700	18,800	23,500	47,001	40,527
Total functional expenses	\$ 5,031,606	\$ 378,660	\$ 858,180	\$ 1,236,840	\$ 6,268,446	\$ 6,103,451

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

Year Ended September 30, 2017

(With Comparative Financial Information for the year ended September 30, 2016)

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ 2,405,697	\$ 2,494,492
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	296,895	147,902
Realized gain on investments	(321,809)	(105,329)
Unrealized gain on investments	(781,095)	(673,390)
Gain on sale of property and equipment	(4,544)	-
Capital campaign pledges and donations	(1,637,102)	(1,728,364)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	150,174	3,675,629
Inventories	(14,243)	4,666
Prepaid expenses and other	41,239	(9,981)
Increase (decrease) in:		
Accounts payable	36,853	(64,999)
Accrued expenses	8,257	36,708
Deferred revenue	72,849	-
Net cash provided by operating activities	253,171	3,777,334
Cash Flows From Investing Activities		
Purchase of property and equipment	(6,495,773)	(5,662,711)
Proceeds from sale of property and equipment	401,557	720
Purchase of investments	(1,165,632)	(2,055,455)
Proceeds from sale of investments	1,347,812	1,692,587
Net cash used in investing activities	(5,912,036)	(6,024,859)
Cash Flows From Financing Activities		
Payments on long-term debt	(413,581)	(60,283)
Proceeds from long-term debt	950,000	-
Proceeds from capital campaign donations	1,659,942	1,214,213
Transfer of cash from cash designated for new facility	3,699,711	1,120,172
Net cash provided by financing activities	5,896,072	2,274,102
Increase in cash and cash equivalents	237,207	26,577
Cash and cash equivalents:		
Beginning	179,394	152,817
Ending	\$ 416,601	\$ 179,394
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 25,792	\$ 18,101
Supplemental Schedule of Non-Cash Investing Activity		
Property and equipment purchases included in accounts payable	\$ 140,909	\$ 1,348,394

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2016)

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

The Erie County Society for the Prevention of Cruelty to Animals (the Society) is a not-for-profit corporation organized to provide effective means for the prevention of cruelty to animals, to enforce all laws which are now, or may hereafter be enacted for the protection of animals, and to secure by lawful means the arrest, conviction and punishment of all persons violating such laws. The Society receives absolutely no governmental support.

A summary of the Society's significant accounting policies follows:

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions received and unconditional promises to give are measured at their fair value and are reported as increases in net assets.

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 stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of land, buildings and equipment are reported 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 for other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those 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.

Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support in the statement of activities.

Donated services:

A substantial number of volunteers have donated significant amounts of their time to the Society's efforts during the year; however, these donated services are not reflected in the financial statements since these services do not require specialized skills.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2016)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Donor-restricted and board-designated funds:

The New York Prudent Management of Institutional Funds Act (NYPMIFA or the Act), New York's version of the Uniform Prudent Management of Institutional Funds Act, governs the management and investment of funds held by not-for-profit corporations and other institutions. The Society has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted funds which is prudent, 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 donor-restricted fund, (b) the original value of subsequent gifts to the donor-restricted fund, and (c) accumulations to the fund 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 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 standards of prudence prescribed by NYPMIFA.

When making a determination to appropriate or accumulate donor-restricted funds, the Society considers the following: the duration and preservation of the fund; the purposes of the donor-restricted fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Society; where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the fund, giving due consideration to the effect that such alternatives may have on the Society; and the investment policies of the Society.

From time-to-time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or relevant law requires the Society to retain as a fund of perpetual duration. Deficiencies of this nature would be reported in temporarily restricted net assets to the extent accumulated gains are available to absorb such loss, otherwise unrestricted net assets. There were no deficiencies of this nature for the years ended September 30, 2017 and 2016.

The Society has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of funding to the Society while seeking to maintain the purchasing power of the funds. Investment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Directors, the investment assets are to be invested in a manner that is intended to achieve returns, net of fees, in excess of a relevant balanced benchmark as defined by the target asset allocation while assuming a moderate level of investment risk.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2016)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Donor-restricted and board-designated funds (continued):

To satisfy its long-term rate-of-return objectives, the Society 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 Society targets a diversified asset allocation that places a greater emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

The Society's Board of Directors will review the performance of investment assets at least annually and will appropriate for distribution an amount it feels is appropriate. Annual spending from investment assets is targeted at no greater than 5% of the average value of the investment assets over the trailing five years as of July 31st of each year. The spending policy allows for deviations as directed by the Board of Directors to support the mission of the Society. The Society's objective is to maintain the purchasing power of the investment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Cash and cash equivalents:

The Society considers all cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less, except accounts (a) that are designated for long-term investment as part of the board-designated and donor-restricted funds or amounts designated for construction costs of the new facility, and (b) are not subject to withdrawal restrictions or penalties, to be cash equivalents.

The Society maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash held on behalf of others:

The Society holds cash on behalf of two unrelated organizations. The cash is reported in the statement of financial position as a current asset with a corresponding current liability to the organizations.

One organization holds a fundraising initiative, for which the Society collects donations, accumulates and holds the cash, until the organization determines where the funds will be donated. The other organization, Maddie's Fund, provides for contributions to be disbursed to the Society and various other organizations upon meeting certain requirements.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2017 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2016)**

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Receivables:

Receivables are carried at their original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories:

Inventories consisting of items for sale in the Society's gift shop, pet supplies, and uniforms are stated at the lower of cost (first-in, first-out) or market.

Investments:

The Society has investments in registered investment companies along with debt and marketable equity securities, which are stated at fair value. Registered investment companies consist of mutual funds and exchange traded funds. Debt securities consist primarily of obligations of domestic corporations. Marketable equity securities consist of common stocks that are traded or listed on national exchanges.

Investment income (including gains on investments, interest and dividends) is included in the statement of activities as increases in unrestricted net assets unless the income is restricted by donor or law.

Property and equipment:

Property and equipment are carried at cost. Depreciation expense has been computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	40
Furniture and equipment	3 – 35

Functional allocation of expenses:

The cost of providing the varied Society program services and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2016)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income taxes:

The Society is registered as a charitable organization in New York State and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code).

It is highly certain that some positions taken for income tax purposes would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements only to the extent that an uncertain tax position (if any) is attributable to the Society.

Management continually evaluates its tax positions and, as a result of this evaluation, nothing has been recorded in the financial statements as management does not consider the financial effects of uncertain tax positions and penalties, if any, to have a direct and material effect on the determination of financial statement amounts taken as a whole.

The tax returns for the years ended 2014 through 2017 remain subject to examination by the Internal Revenue Service for U.S. Federal tax purposes and also by New York State for state tax purposes.

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.

Comparative financial information:

The statements of activities and functional expenses are presented with prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2016)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recent accounting pronouncements not yet adopted:

The following recently adopted accounting pronouncements represent those considered relevant and potentially significant to the Society:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Society does not expect this ASU to have a significant impact on the financial statements upon adoption.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 represents the first phase of an expected two phase project that will require various modifications to the current financial statement presentation in order to make information more useful for the users of the financial statements. Key changes include expanded disclosures on donor restrictions and board designations of net assets; reducing the net asset classifications from three to two; a liquidity disclosure requirement; new reporting requirements for expenses and changes to requirements for determining when restrictions on capital contributions are released. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. The Society is evaluating the potential impact of this new standard on the financial statements, the disclosure requirements and effective date options for the purpose of developing an implementation strategy.

Subsequent events:

Management has evaluated subsequent events through February 9, 2018, which is the date that the financial statements were available to be issued.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2017 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2016)**

Note 2. Investments

Investments at September 30, 2017 and 2016 consist of the following:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Common Stocks	\$ 3,353,173	\$ 5,507,301	\$ 3,248,710	\$ 4,720,781
Bonds	519,427	474,053	680,673	659,570
Registered Investment Companies	2,370,134	2,941,456	2,173,722	2,621,735
	\$ 6,242,734	\$ 8,922,810	\$ 6,103,105	\$ 8,002,086

A summary of investment income activity on the above investments for the years ended September 30, 2017 and 2016 is as follows:

	2017	2016
Realized gain	\$ 321,809	\$ 105,329
Unrealized gain	781,095	673,390
Gain on investments	\$ 1,102,904	\$ 778,719
Dividend and interest income	\$ 160,456	\$ 151,888

Note 3. Fair Value Measurements of Financial Instruments

Accounting principles generally accepted in the United States of America 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 level 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 ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2016)

Note 3. Fair Value Measurements of Financial Instruments (Continued)

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

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; and
- 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.

The asset'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 following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at September 30, 2017 and 2016.

Common Stocks: Valued at fair value based on quoted market prices in active markets.

Bonds: Consist of fixed income debt securities which are valued at approximate fair value as determined by a service provider to the obligation custodian using a pricing model.

Registered Investment Companies: Exchange traded funds and mutual funds, except for money market mutual funds, are valued at the daily closing price as reported by the fund. Exchange traded funds and mutual funds owned by the Society are open-end funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The Society deems funds owned by them to be actively traded.

Money Market Mutual Fund: Valued at the daily closing price as reported by the fund. The money market mutual fund held by the Society is an open-end mutual fund that is registered with the SEC that generally transacts at a stable \$1.00 NAV representing its estimated fair value. On a daily basis the fund's NAV is determined by the fund based on the amortized cost of the fund's underlying investments.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2016)

Note 3. Fair Value Measurements of Financial Instruments (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Society's assets at fair value at September 30, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Common Stocks:				
Consumer goods	\$ 912,622	\$ -	\$ -	\$ 912,622
Financials	1,120,704	-	-	1,120,704
Healthcare	713,671	-	-	713,671
Industrials	542,128	-	-	542,128
Materials	628,853	-	-	628,853
Services	770,887	-	-	770,887
Technology	818,436	-	-	818,436
	<u>5,507,301</u>	-	-	<u>5,507,301</u>
Bonds	-	474,053	-	474,053
Registered Investment				
Companies:				
Bond funds	201,243	-	-	201,243
Commodities	24,081	-	-	24,081
Foreign large blend	92,740	-	-	92,740
Inflation-protected bonds	91,589	-	-	91,589
Large-cap blend	527,243	-	-	527,243
Mid-cap blend	875,371	-	-	875,371
Money market	-	562,704	-	562,704
Small-cap blend	566,485	-	-	566,485
	<u>2,378,752</u>	<u>562,704</u>	-	<u>2,941,456</u>
	<u>\$ 7,886,053</u>	<u>\$ 1,036,757</u>	<u>\$ -</u>	<u>\$ 8,922,810</u>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2017 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2016)

Note 3. Fair Value Measurements of Financial Instruments (Continued)

	2016			Total
	Level 1	Level 2	Level 3	
Common Stocks:				
Consumer goods	\$ 811,517	\$ -	\$ -	\$ 811,517
Financials	918,252	-	-	918,252
Healthcare	660,879	-	-	660,879
Industrials	390,750	-	-	390,750
Materials	647,959	-	-	647,959
Services	523,682	-	-	523,682
Technology	767,742	-	-	767,742
	<u>4,720,781</u>	<u>-</u>	<u>-</u>	<u>4,720,781</u>
Bonds	-	659,570	-	659,570
Registered Investment				
Companies:				
Commodities	24,515	-	-	24,515
Foreign large blend	75,881	-	-	75,881
Inflation-protected bonds	74,814	-	-	74,814
Large-cap blend	988,097	-	-	988,097
Mid-cap blend	427,920	-	-	427,920
Money market	-	419,381	-	419,381
Small-cap blend	611,127	-	-	611,127
	<u>2,202,354</u>	<u>419,381</u>	<u>-</u>	<u>2,621,735</u>
	<u>\$ 6,923,135</u>	<u>\$ 1,078,951</u>	<u>\$ -</u>	<u>\$ 8,002,086</u>

The Society invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances in the statement of financial position.

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2017 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2016)

Note 4. Property and Equipment

Property and equipment at September 30, 2017 and 2016 consist of the following:

	2017	2016
Land and land improvements	\$ 537,915	\$ 703,232
Building	12,340,787	2,318,706
Furniture and equipment	1,448,957	2,168,462
Construction-in-progress – new facility	-	7,619,811
	<u>14,327,659</u>	<u>12,810,211</u>
Less accumulated depreciation	715,969	3,792,901
	<u>\$ 13,611,690</u>	<u>\$ 9,017,310</u>

Beginning in 2016 and continuing in 2017, the Society constructed a new facility. The Society moved into the new facility in April of 2017 and sold the existing facility. Construction was financed with the combination of capital campaign donations and a bank demand note (Note 5).

Note 5. Notes Payable, Bank

The Society has two available revolving demand notes with a bank secured by all assets of the Society, with an aggregate maximum borrowing capacity of \$350,000. Borrowed amounts bear interest at the prime rate. Outstanding borrowings amounted to \$-0- and \$349,989 at September 30, 2017 and 2016, respectively.

During 2016, the Society obtained a demand note available through April 2019 with a bank containing a maximum borrowing capacity of \$7,000,000 to finance the construction of the new facility (Construction Note). Borrowings are limited to 100% of eligible pledges receivable from certain organizations, 90% of eligible pledges receivable from individuals and 80% of investment accounts. Borrowed amounts bear interest payable monthly based on one-month LIBOR plus 1.8% (3.05% at September 30, 2017).

The Construction Note contains various covenants including that investments must not fall below \$5,000,000 at the end of each fiscal year. The Construction Note is secured by a general security interest in all non-realty assets of the Society and includes an assignment of certain pledge receivables and investment accounts. At September 30, 2017, the Society was in compliance with its loan covenants.

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**2017 NOTES TO FINANCIAL STATEMENTS
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Note 5. Notes Payable, Bank (Continued)

Pursuant to the terms of the Construction Note, upon completion of construction, the Society may elect to convert up to \$3,000,000 of borrowings to a mortgage with a five-year term, twenty-five year amortization, and interest equal to one-month LIBOR plus 2.6%. The securitization by the investment account will be released when the note is converted to a mortgage secured by the facility. The Society intends to refinance outstanding borrowings on the Construction Note in 2018. Accordingly, the Construction Note has been presented in the statement of financial position according to the mortgage terms resulting from refinancing. Outstanding borrowings on the Construction Note amounted to \$950,000 and \$-0- at September 30, 2017 and 2016, respectively.

The aggregate maturities of long-term debt outstanding at September 30, 2017, assuming the Construction Note is refinanced, are as follows:

<u>Years ending September 30,</u>	
2018	\$ 13,345
2019	23,585
2020	24,510
2021	25,470
2022	26,468
2023	<u>836,622</u>
Total	<u>\$ 950,000</u>

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2017 and 2016 are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Contributions to be received in future years to support the new building capital campaign	\$ 187,197	\$ 358,204
Contributions received to support the new building capital campaign	-	174,390
Other restricted for a specific use	<u>155,357</u>	152,847
	<u>\$ 342,554</u>	<u>\$ 685,441</u>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2017 NOTES TO FINANCIAL STATEMENTS
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Note 6. Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions for the years ended September 30, 2017 and 2016 as follows:

	2017	2016
Satisfaction of program restrictions:		
Expended for construction of new facility	\$ 360,852	\$ 4,615,691
Incurring expenses for program activities	<u>62,296</u>	<u>32,739</u>
	<u>\$ 423,148</u>	<u>\$ 4,648,430</u>

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets as of September 30, 2017 and 2016 are restricted to:

	2017	2016
Investment in perpetuity, the income from which is expendable to support any activities of the Society	\$ 786,950	\$ 786,950
Investments in perpetuity, the income from which is to be used to provide financial support to members of the community unable to afford veterinary costs	<u>100,000</u>	<u>146,890</u>
	<u>\$ 886,950</u>	<u>\$ 933,840</u>

In 2017, at the request of the donor, the Society reclassified \$46,890 of permanently restricted net assets originally classified in the donor-restricted fund to temporarily restricted net assets.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

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Note 8. Board-Designated Fund

The Society’s Board of Directors has established a board-designated fund, from unrestricted net assets, to support its mission to create a caring and kind community that encourages fair and humane treatment of all creatures. Changes in the board-designated fund for the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Board-designated fund, beginning balance	\$ 7,068,246	\$ 5,973,549
Contributions	<u>195,958</u>	<u>1,114,090</u>
Investment return:		
Interest and dividend income	141,201	132,143
Gain on investments	<u>970,556</u>	<u>677,486</u>
	<u>1,111,757</u>	<u>809,629</u>
Appropriation of board-designated fund investment assets for expenditure	<u>(398,463)</u>	<u>(829,022)</u>
Board-designated fund, ending balance	<u>\$ 7,977,498</u>	<u>\$ 7,068,246</u>

The board-designated fund is designated for the following at September 30, 2017:

Board-designated to balance the 2018 operating budget	\$ 1,721,266
Board-designated for long-term use	<u>6,256,232</u>
Board-designated fund	<u><u>\$ 7,977,498</u></u>

Annually, the Board of Directors approves the designation of investment assets to supplement budgeted excess expenses over revenues. Contributions and bequests received throughout the year reduce the need to use investment assets in the board-designated fund. Therefore, actual amounts withdrawn from the board-designated fund to cover the budget short-fall will vary.

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Note 9. Donor-Restricted Funds

Changes in, and net asset composition of, the donor-restricted funds for the years ended September 30, 2017 and 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds, September 30, 2015	\$ -	\$ 886,950	\$ 886,950
Contributions	-	46,890	46,890
Investment return:			
Interest and dividend income	19,745	-	19,745
Gain on investments	101,233	-	101,233
	120,978	-	120,978
Appropriation of donor-restricted funds for expenditure	(120,978)	-	(120,978)
Donor-restricted funds, September 30, 2016	-	933,840	933,840
Reclassification (Note 7)	46,890	(46,890)	-
Investment return:			
Interest and dividend income	19,255	-	19,255
Gain on investments	132,348	-	132,348
	151,603	-	151,603
Appropriation of donor-restricted funds for expenditure	(140,131)	-	(140,131)
Donor-restricted funds, September 30, 2017	\$ 58,362	\$ 886,950	\$ 945,312

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2017 NOTES TO FINANCIAL STATEMENTS
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Note 10. Major Contributors and Bequests

Capital campaign contributions from one donor amounted to \$1,317,000 for the year ended September 30, 2017. Capital campaign contributions from another donor amounted to \$1,012,521 for the year ended September 30, 2016. A bequest of \$939,941 was received during the year ended September 30, 2016.

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