

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

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

September 30, 2018

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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, 2018, and the related statements of activities and changes in net assets, 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized and Comparative Information

We have previously audited The Erie County Society for the Prevention of Cruelty to Animals' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 9, 2018. In our opinion, the summarized and comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

February 4, 2019

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FINANCIAL POSITION

September 30, 2018

(With Comparative Financial Information as of September 30, 2017)

ASSETS	2018	2017
Current Assets		
Cash	\$ 289,244	\$ 476,184
Capital campaign current receivables, net of allowance for doubtful accounts of \$10,000 in 2018 and 2017	68,973	109,836
Inventories	55,647	60,665
Prepaid expenses and other	85,642	78,974
Total current assets	499,506	725,659
Long-Term Receivables, less current maturities		
Capital campaign receivables	30,981	77,361
Mortgage note receivable	92,147	94,434
	123,128	171,795
Other Assets		
Investments	8,748,420	8,922,810
Property and equipment, net	13,176,257	13,611,690
	21,924,677	22,534,500
Total assets	\$ 22,547,311	\$ 23,431,954
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt	\$ 120,668	\$ 13,345
Accounts payable	301,820	330,375
Accrued expenses and other	329,983	297,641
Deferred revenue	142,622	72,849
Total current liabilities	895,093	714,210
Long-Term Debt, less current maturities	932,905	936,655
Total liabilities	1,827,998	1,650,865
Net Assets		
Unrestricted	19,449,147	20,551,585
Temporarily restricted	383,216	342,554
Permanently restricted	886,950	886,950
Total net assets	20,719,313	21,781,089
Total liabilities and net assets	\$ 22,547,311	\$ 23,431,954

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	2017
Support and revenue:					
Public support:					
Bequests and grants	\$ 521,003	-	-	\$ 521,003	\$ 1,539,288
Donations	2,893,718	162,205	-	3,055,923	2,854,955
Capital campaign pledges and donations	31,600	-	-	31,600	1,637,102
Special events, net of costs of \$32,098 and \$73,448 in 2018 and 2017, respectively	191,257	-	-	191,257	220,409
Total support	3,637,578	162,205	-	3,799,783	6,251,754
Revenue:					
Fees for services	1,154,313	-	-	1,154,313	1,001,358
Boutique sales, net of costs of \$137,240 and \$146,734 in 2018 and 2017, respectively	119,406	-	-	119,406	127,533
Dividend and interest income	196,591	2,826	-	199,417	165,009
Gain on investments:					
Realized	365,146	5,260	-	370,406	321,809
Unrealized	250,060	3,602	-	253,662	781,095
Gain on sale of property and equipment	9,765	-	-	9,765	4,544
Other	31,790	-	-	31,790	21,041
Total support and revenue	5,764,649	173,893	-	5,938,542	8,674,143
Net assets released from restrictions					
Satisfaction of program restrictions:	133,231	(133,231)	-	-	-
Expenses:					
Program services:					
Animal care	5,453,575	-	-	5,453,575	5,031,606
Supporting services:					
Management and general	609,533	-	-	609,533	378,660
Fundraising	937,210	-	-	937,210	858,180
Total supporting services	1,546,743	-	-	1,546,743	1,236,840
Total expenses	7,000,318	-	-	7,000,318	6,268,446
Change in net assets	(1,102,438)	40,662	-	(1,061,776)	2,405,697
Net assets at beginning of year	20,551,585	342,554	886,950	21,781,089	19,375,392
Net assets at end of year	\$ 19,449,147	\$ 383,216	\$ 886,950	\$ 20,719,313	\$ 21,781,089

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	Program	Supporting Services			2018	2017
	Services	Management	Fund-	Total		
	Animal	and General	Raising			
	Care					
Salaries	\$ 2,768,754	\$ 334,877	\$ 225,563	\$ 560,440	\$ 3,329,194	\$ 3,072,519
Employee health and retirement benefits	468,869	56,709	38,196	94,905	563,774	502,390
Payroll taxes	249,592	30,188	20,332	50,520	300,112	276,215
Total salaries and related expenses	3,487,215	421,774	284,091	705,865	4,193,080	3,851,124
Agents' costs	21,229	-	-	-	21,229	22,721
Depreciation	568,356	43,245	6,178	49,423	617,779	296,895
Development	-	-	610,787	610,787	610,787	558,493
Food and supplies	239,054	-	-	-	239,054	235,863
Humane education	27,364	-	-	-	27,364	39,054
Insurance	61,411	4,308	615	4,923	66,334	97,664
Interest	37,430	2,848	407	3,255	40,685	25,792
Miscellaneous	25,382	36,364	30	36,394	61,776	46,304
Occupancy	242,604	18,459	2,637	21,096	263,700	227,452
Office supplies	54,952	24,131	-	24,131	79,083	87,318
Postage	3,826	694	3,470	4,164	7,990	7,556
Professional fees	180,275	24,588	3,783	28,371	208,646	191,654
Staff education	5,135	12,929	-	12,929	18,064	714
Telephone	44,389	4,584	4,584	9,168	53,557	47,804
Transportation	89,848	-	-	-	89,848	75,689
Travel and dues	6,789	10,452	-	10,452	17,241	9,780
Veterinary care	332,532	-	-	-	332,532	399,568
Website maintenance	25,784	5,157	20,628	25,785	51,569	47,001
Total functional expenses	\$ 5,453,575	\$ 609,533	\$ 937,210	\$ 1,546,743	\$ 7,000,318	\$ 6,268,446

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

Year Ended September 30, 2018

(With Comparative Financial Information for the Year Ended September 30, 2017)

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ (1,061,776)	\$ 2,405,697
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	617,779	296,895
Realized gain on investments	(370,406)	(321,809)
Unrealized gain on investments	(253,662)	(781,095)
Gain on sale of property and equipment	(9,765)	(4,544)
Capital campaign pledges and donations	(31,600)	(1,637,102)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	33,887	150,174
Inventories	5,018	(14,243)
Prepaid expenses and other	(6,668)	41,239
Increase (decrease) in:		
Accounts payable	112,354	36,853
Accrued expenses and other	32,342	(25,920)
Deferred revenue	69,773	72,849
Net cash (used in) provided by operating activities	(862,724)	218,994
Cash Flows From Investing Activities		
Purchase of property and equipment	(323,255)	(6,495,773)
Proceeds from sale of property and equipment	9,765	401,557
Purchase of investments	(1,262,567)	(1,165,632)
Proceeds from sale of investments	2,061,025	1,347,812
Net cash provided by (used in) investing activities	484,968	(5,912,036)
Cash Flows From Financing Activities		
Payments on long-term debt	-	(413,581)
Proceeds from long-term debt	103,573	950,000
Proceeds from capital campaign donations	87,243	1,659,942
Transfer of cash to cash designated for new facility	-	3,699,711
Net cash provided by financing activities	190,816	5,896,072
(Decrease) increase in cash	(186,940)	203,030
Cash:		
Beginning	476,184	273,154
Ending	\$ 289,244	\$ 476,184
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 40,685	\$ 25,792
Supplemental Schedule of Non-Cash Investing Activity		
Property and equipment purchases included in accounts payable	\$ -	\$ 140,909

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2018 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2017)

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 and changes in net assets 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 and changes in net assets.

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

2018 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2017)

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, 2018 and 2017.

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

2018 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2017)

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.

Annual spending from donor-restricted investment assets is targeted at 5% of the average value of the donor-restricted investment assets over the trailing twenty quarters as of June 30th 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 Board of Directors will review the performance of investment assets at least annually and will appropriate board-designated funds for distribution an amount it feels is appropriate. 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:

The Society considers all cash accounts except accounts that are designated for long-term investment as part of the board-designated and donor-restricted funds.

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.

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 net realizable value.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)**

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

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 and changes in net assets 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. The Society capitalizes items that are over \$1,000. Depreciation expense has been computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	40
Furniture, equipment, and building improvements	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

2018 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2017)

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 2015 through 2018 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 changes in net assets and functional expenses are presented with prior year summarized comparative information. 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, 2017, from which the summarized information was derived.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2018 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2017)

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

Recent accounting pronouncements not yet adopted:

The following recently issued accounting pronouncements by the Financial Accounting Standards Board (FASB) represent those considered relevant to the Society:

In May 2014, the 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 the Society's annual reporting period ending September 30, 2020. 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 the Society's annual reporting period ending September 30, 2019.

Adjustment of balances:

Certain prior year amounts have been reclassified in order to conform to the presentation used in the 2018 financial statements.

Subsequent events:

Management has evaluated subsequent events through February 4, 2019, which is the date that the financial statements were available to be issued.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)**

Note 2. Investments

Investments at September 30, 2018 and 2017 consist of the following:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Common Stocks	\$ 3,217,097	\$ 5,740,031	\$ 3,353,173	\$ 5,507,301
Bonds	640,001	637,263	519,427	474,053
Registered Investment Companies	1,957,584	2,371,126	2,370,134	2,941,456
	\$ 5,814,682	\$ 8,748,420	\$ 6,242,734	\$ 8,922,810

A summary of investment income activity on the above investments for the years ended September 30, 2018 and 2017 is as follows:

	2018	2017
Realized gain	\$ 370,406	\$ 321,809
Unrealized gain	253,662	781,095
Gain on investments	\$ 624,068	\$ 1,102,904
Dividend and interest income	\$ 194,581	\$ 160,456

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

2018 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2017)

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, 2018 and 2017.

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 Funds: 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

**2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)**

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, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Common Stocks:				
Consumer goods	\$ 973,991	\$ -	\$ -	\$ 973,991
Financials	1,105,727	-	-	1,105,727
Healthcare	786,358	-	-	786,358
Industrials	603,813	-	-	603,813
Materials	519,164	-	-	519,164
Services	813,118	-	-	813,118
Technology	937,860	-	-	937,860
	<u>5,740,031</u>	-	-	<u>5,740,031</u>
Bonds	-	637,263	-	637,263
Registered Investment Companies:				
Bond funds	194,489	-	-	194,489
Commodities	24,530	-	-	24,530
Foreign large blend	109,670	-	-	109,670
Inflation-protected bonds	90,027	-	-	90,027
Large-cap blend	460,678	-	-	460,678
Mid-cap blend	1,014,034	-	-	1,014,034
Money market	-	74,050	-	74,050
Small-cap blend	403,648	-	-	403,648
	<u>2,297,076</u>	<u>74,050</u>	-	<u>2,371,126</u>
	<u>\$ 8,037,107</u>	<u>\$ 711,313</u>	<u>\$ -</u>	<u>\$ 8,748,420</u>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)

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

	2017			Total
	Level 1	Level 2	Level 3	
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>-</u>	<u>-</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>-</u>	<u>2,941,456</u>
	<u>\$ 7,886,053</u>	<u>\$ 1,036,757</u>	<u>\$ -</u>	<u>\$ 8,922,810</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.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)**

Note 4. Property and Equipment

Property and equipment at September 30, 2018 and 2017 consist of the following:

	2018	2017
Land and land improvements	\$ 537,915	\$ 537,915
Building	12,404,052	12,340,787
Furniture, equipment, and building improvements	1,550,621	1,448,957
	14,492,588	14,327,659
Less accumulated depreciation	1,316,331	715,969
	\$ 13,176,257	\$ 13,611,690

Note 5. Notes Payable, Bank and Long-Term Debt

The Society has an available revolving demand note with a bank secured by all assets of the Society, with an aggregate maximum borrowing capacity of \$50,000. Borrowed amounts bear interest at the prime rate. Outstanding borrowings amounted to \$-0- at September 30, 2018 and 2017.

The Society utilized a bank demand note to finance the construction of the new facility (Construction Note). Outstanding borrowings on the Construction Note amounted to \$1,053,573 and \$950,000 at September 30, 2018 and 2017, respectively. Subsequent to September 30, 2018, the Society refinanced the Construction Note to a ten-year term loan in the amount of \$1,000,000 (Term Note). In connection with the refinancing, the Society repaid \$53,573 from the outstanding balance due on the Construction Note. Commencing in December 2018, the Term Note requires monthly principal and interest payments in the amount of \$10,395. Interest is fixed at 4.5%. This loan is secured by pledged marketable securities. The Construction Note existing at September 30, 2018 has been presented in the accompanying statement of financial position according to the refinancing terms.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2018 NOTES TO FINANCIAL STATEMENTS
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Note 5. Notes Payable, Bank and Long-Term Debt (Continued)

The aggregate maturities of long-term debt outstanding at September 30, 2018, per the refinancing, are as follows:

Years ending September 30,	
2019	\$ 120,668
2020	83,808
2021	87,829
2022	91,918
2023	96,203
Thereafter	<u>573,147</u>
Total	<u>\$ 1,053,573</u>

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2018 and 2017 are available for the following purposes or periods:

	2018	2017
Contributions to be received in future years to support the new building capital campaign, net	\$ 99,954	\$ 187,197
Restricted for specific programs	<u>283,262</u>	<u>155,357</u>
	<u>\$ 383,216</u>	<u>\$ 342,554</u>

Net assets were released from donor restrictions for the years ended September 30, 2018 and 2017 as follows:

	2018	2017
Satisfaction of program restrictions:		
Expended for construction of new facility	\$ 87,243	\$ 360,852
Incurring expenses for program activities	<u>45,988</u>	<u>62,296</u>
	<u>\$ 133,231</u>	<u>\$ 423,148</u>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets as of September 30, 2018 and 2017 are restricted to:

	<u>2018</u>		2017
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>		100,000
	<u>\$ 886,950</u>	\$	<u>886,950</u>

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, 2018 and 2017 are as follows:

	<u>2018</u>		2017
Board-designated fund, beginning balance	\$ 7,977,498	\$	7,068,246
Contributions	<u>244,468</u>		195,958
Investment return:			
Interest and dividend income	172,676		141,201
Gain on investments	<u>553,589</u>		970,556
	<u>726,265</u>		1,111,757
Appropriation of board-designated fund investment assets for expenditure	<u>(1,308,859)</u>		(398,463)
Board-designated fund, ending balance	\$ 7,639,372	\$	<u>7,977,498</u>

The board-designated fund at September 30, 2018 and 2017 is designated for the following:

	<u>2018</u>		2017
Board-designated to balance the operating budget	\$ 1,790,505	\$	1,721,266
Board-designated for long-term use	<u>5,848,867</u>		6,256,232
Board-designated fund	<u>\$ 7,639,372</u>	\$	<u>7,977,498</u>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)**

Note 8. Board-Designated Fund (Continued)

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.

Note 9. Donor-Restricted Funds

Changes in and net asset composition of the donor-restricted funds for the years ended September 30, 2018 and 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds, September 30, 2016	\$ 46,890	\$ 886,950	\$ 933,840
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
Contributions	152,048	-	152,048
Investment return:			
Interest and dividend income	21,905	-	21,905
Gain on investments	70,479	-	70,479
	92,384	-	92,384
Appropriation of donor-restricted funds for expenditure	(80,696)	-	(80,696)
Donor-restricted funds, September 30, 2018	\$ 222,098	\$ 886,950	\$ 1,109,048

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2018 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2017)**

Note 10. Major Contributor

Capital campaign contributions from one donor amounted to \$1,317,000 for the year ended September 30, 2017.

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