

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

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

September 30, 2019

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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, 2019, 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 (collectively, 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, 2019, 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' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 4, 2019. In our opinion, the summarized and comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

March 3, 2020

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FINANCIAL POSITION

September 30, 2019

(With Comparative Financial Information as of September 30, 2018)

ASSETS	2019	2018
Current Assets		
Cash	\$ 444,903	\$ 289,244
Capital campaign current receivables, net of allowance for doubtful accounts of \$10,000 in 2019 and 2018	32,097	68,973
Inventories	44,859	55,647
Prepaid expenses and other	100,366	85,642
Total current assets	622,225	499,506
Long-Term Receivables, less current maturities		
Capital campaign receivables	-	30,981
Mortgage note receivable	89,743	92,147
	89,743	123,128
Other Assets		
Investments	9,103,227	8,748,420
Property and equipment, net	12,884,577	13,176,257
	21,987,804	21,924,677
Total assets	\$ 22,699,772	\$ 22,547,311
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt	\$ 83,808	\$ 120,668
Accounts payable	205,439	301,820
Accrued expenses and other	349,542	329,983
Deferred revenue	144,138	142,622
Total current liabilities	782,927	895,093
Long-Term Debt, less current maturities	848,320	932,905
Total liabilities	1,631,247	1,827,998
Net Assets		
Without donor restrictions	19,683,835	19,449,147
With donor restrictions	1,384,690	1,270,166
Total net assets	21,068,525	20,719,313
Total liabilities and net assets	\$ 22,699,772	\$ 22,547,311

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2019

(With Summarized Financial Information for the Year Ended September 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Public support:				
Bequests and grants	\$ 2,146,860	-	\$ 2,146,860	\$ 521,003
Donations	3,040,887	193,482	3,234,369	3,087,523
Special events, net of costs of \$28,765 and \$32,098 in 2019 and 2018, respectively	196,792	-	196,792	191,257
Total support	5,384,539	193,482	5,578,021	3,799,783
Revenue:				
Fees for services	1,541,501	-	1,541,501	1,154,313
Boutique sales, net of costs of \$127,934 and \$137,240 in 2019 and 2018, respectively	121,880	-	121,880	119,406
Dividend and interest income	175,066	23,198	198,264	199,417
Gain (loss) on investments:				
Realized	512,794	56,550	569,344	370,406
Unrealized	(698,251)	(77,324)	(775,575)	253,662
Gain on sale of property and equipment	10,700	-	10,700	9,765
Other	3,768	-	3,768	31,790
Total support and revenue	7,051,997	195,906	7,247,903	5,938,542
Net assets released from restrictions:				
Satisfaction of program restrictions	81,382	(81,382)	-	-
Expenses:				
Program services:				
Animal care	5,243,599	-	5,243,599	5,453,575
Supporting services:				
Management and general	577,622	-	577,622	609,533
Fundraising	1,077,470	-	1,077,470	937,210
Total supporting services	1,655,092	-	1,655,092	1,546,743
Total expenses	6,898,691	-	6,898,691	7,000,318
Change in net assets	234,688	114,524	349,212	(1,061,776)
Net assets at beginning of year	19,449,147	1,270,166	20,719,313	21,781,089
Net assets at end of year	\$ 19,683,835	\$ 1,384,690	\$ 21,068,525	\$ 20,719,313

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2019

(With Summarized Financial Information for the Year Ended September 30, 2018)

	Program	Supporting Services			2019	2018
	Services	Management	Fund-	Total		
	Animal	and General	Raising			
	Care					
Salaries	\$ 2,766,646	\$ 334,622	\$ 225,391	\$ 560,013	\$ 3,326,659	\$ 3,329,194
Employee health and retirement benefits	456,859	55,257	37,219	92,476	549,335	563,774
Payroll taxes	238,547	28,852	19,434	48,286	286,833	300,112
Total salaries and related expenses	3,462,052	418,731	282,044	700,775	4,162,827	4,193,080
Agents' costs	14,102	-	-	-	14,102	21,229
Depreciation	412,397	31,378	4,483	35,861	448,258	617,779
Development	-	-	748,545	748,545	748,545	610,787
Food and supplies	241,618	-	-	-	241,618	239,054
Humane education	23,324	-	-	-	23,324	27,364
Insurance	90,966	6,377	911	7,288	98,254	66,334
Interest	36,036	2,742	392	3,134	39,170	40,685
Miscellaneous	21,222	37,421	-	37,421	58,643	61,776
Occupancy	246,791	18,778	2,682	21,460	268,251	263,700
Office supplies	51,584	22,117	13	22,130	73,714	79,083
Postage	3,019	582	2,917	3,499	6,518	7,990
Professional fees	171,545	19,003	9,501	28,504	200,049	208,646
Staff education	7,435	3,488	-	3,488	10,923	18,064
Telephone	45,374	4,804	4,805	9,609	54,983	53,557
Transportation	68,479	-	-	-	68,479	89,848
Travel and dues	8,181	6,907	-	6,907	15,088	17,241
Veterinary care	313,003	-	-	-	313,003	332,532
Website maintenance	26,471	5,294	21,177	26,471	52,942	51,569
Total functional expenses	\$ 5,243,599	\$ 577,622	\$ 1,077,470	\$ 1,655,092	\$ 6,898,691	\$ 7,000,318

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

Year Ended September 30, 2019

(With Comparative Financial Information for the Year Ended September 30, 2018)

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 349,212	\$ (1,061,776)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	448,258	617,779
Realized gain on investments	(569,344)	(370,406)
Unrealized (gain) loss on investments	775,575	(253,662)
Gain on sale of property and equipment	(10,700)	(9,765)
Capital campaign pledges and donations	18,119	(31,600)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	14,384	33,887
Inventories	10,788	5,018
Prepaid expenses and other	(14,724)	(6,668)
Increase (decrease) in:		
Accounts payable	(111,171)	112,354
Accrued expenses and other	19,559	32,342
Deferred revenue	1,516	69,773
Net cash provided by (used in) operating activities	931,472	(862,724)
Cash Flows From Investing Activities		
Purchase of property and equipment	(141,788)	(323,255)
Proceeds from sale of property and equipment	10,700	9,765
Purchase of investments	(2,950,504)	(1,262,567)
Proceeds from sale of investments	2,389,466	2,061,025
Net cash provided by (used in) investing activities	(692,126)	484,968
Cash Flows From Financing Activities		
Payments on long-term debt	(121,445)	-
Proceeds from long-term debt	-	103,573
Proceeds from capital campaign donations	37,758	87,243
Net cash provided by (used in) financing activities	(83,687)	190,816
Increase (decrease) in cash	155,659	(186,940)
Cash:		
Beginning	289,244	476,184
Ending	\$ 444,903	\$ 289,244
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 39,170	\$ 40,685
Supplemental Schedule of Non-Cash Investing Activity		
Property and equipment purchases included in accounts payable	\$ 14,790	\$ -

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2019 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2018)

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:

Accounting change:

During 2019, the Society adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This ASU requires various modifications to the financial statement presentation in order to make information more useful for the users of the financial statements. Key changes that impact the Society's financial statements include reducing the net asset classifications from three to two (with donor restrictions and without donor restrictions) and certain additional disclosures related to cost allocation methodologies and liquidity management. This accounting change was applied on a retrospective basis. The 2018 reported balances for temporarily restricted net assets of \$383,216 and permanently restricted net assets of \$886,950 have been combined and presented herein as net assets with donor restrictions of \$1,270,166 as of September 30, 2018.

Contributions:

Contributions received are considered to be available for unrestricted use unless specifically restricted by a donor. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support without donor restrictions 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 support with donor restrictions. 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.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2019 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2018)

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

Contributions (continued):

Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as support without donor restrictions 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.

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 retains in perpetuity (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 retained in perpetuity is classified as net assets with donor restrictions 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 net assets with donor restrictions to the extent accumulated gains are available to absorb such loss, otherwise net assets without donor restrictions. There were no deficiencies of this nature for the years ended September 30, 2019 and 2018.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2019 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2018)

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

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

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.

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.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2019 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2018)**

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

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.

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 (losses) on investments, interest and dividends) is included in the statement of activities and changes in net assets as increases in net assets without donor restrictions 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.

Methods used for allocating expenses between program and support services:

The costs of providing the Society’s programs, services and other activities have been summarized on a functional basis in the accompanying statement of activities and changes in net assets. Costs incurred by the Society are primarily charged directly to the applicable program or supporting function. In certain instances, costs are attributable to one or more program or supporting function of the Society and, accordingly, require allocation. Cost allocations are determined in accordance with methodologies reasonably based on the nature of the cost or activity, such as certain occupancy costs and are allocated based on square footage applicable to the program and supporting function.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2019 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2018)

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 2016 through 2019 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, 2018, from which the summarized information was derived.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

2019 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2018)

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

Accounting pronouncements not yet adopted:

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

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This ASU will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. ASU 2014-09, as amended, is effective for the Society in the year ending September 30, 2020. The Society expects to apply ASU 2014-09 using the modified retrospective transition method. Management does not expect ASU 2014-09 to have a significant impact on the Society's revenue recognition policies and, as a result, does not expect the implementation to materially affect the opening balance of net assets, or revenues reported, in the 2020 financial statements.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides clarified guidance on evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and determining whether the contribution is conditional. ASU 2018-08 will be effective for the Society for the year ending September 30, 2020. The Society is evaluating the impact of ASU 2018-08 on its financial statements.

Subsequent events:

Management has evaluated subsequent events through March 3, 2020, which is the date the financial statements were available to be issued.

Note 2. Liquidity Management

The Society regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investments. As of September 30, 2019, the Society has financial assets consisting of cash and receivables amounting to \$592,536 and has appropriated \$1,714,867 of board-designated funds (Note 8) to meet annual operating needs for the 2020 fiscal year. The Society has additional sources of liquidity available, including a revolving demand note (Note 6) and additional board-designated funds if a liquidity need arose subject to appropriation by the Board of Directors.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2019 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2018)**

Note 3. Investments

Investments at fair value at September 30, 2019 and 2018 consist of the following:

	2019	2018
Common Stocks	\$ 7,220,745	\$ 7,816,774
Bonds	1,138,661	637,263
Money Market Mutual Funds	337,048	74,050
Registered Investment Companies	406,773	220,333
	<u>\$ 9,103,227</u>	<u>\$ 8,748,420</u>

The cost basis for investments was \$6,945,064 and \$5,814,682 at September 30, 2019 and 2018, respectively.

A summary of investment income activity on the above investments for the years ended September 30, 2019 and 2018 is as follows:

	2019	2018
Realized gain	\$ 569,344	\$ 370,406
Unrealized gain (loss)	(775,575)	253,662
Gain (loss) on investments	<u>\$ (206,231)</u>	<u>\$ 624,068</u>
Dividend and interest income	<u>\$ 192,772</u>	<u>\$ 194,581</u>

Note 4. 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

2019 NOTES TO FINANCIAL STATEMENTS (With Comparative Financial Information for 2018)

Note 4. 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, 2019 and 2018.

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

**2019 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2018)**

Note 4. 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, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 7,220,745	\$ -	\$ -	\$ 7,220,745
Bonds	-	1,138,661	-	1,138,661
Money Market Mutual Funds	-	337,048	-	337,048
Registered Investment Companies	406,773	-	-	406,773
	\$ 7,627,518	\$ 1,475,709	\$ -	\$ 9,103,227

	2018			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 7,816,774	\$ -	\$ -	\$ 7,816,774
Bonds	-	637,263	-	637,263
Money Market Mutual Funds	-	74,050	-	74,050
Registered Investment Companies	220,333	-	-	220,333
	\$ 8,037,107	\$ 711,313	\$ -	\$ 8,748,420

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

**2019 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2018)**

Note 5. Property and Equipment

Property and equipment at September 30, 2019 and 2018 consist of the following:

	2019	2018
Land and land improvements	\$ 537,915	\$ 537,915
Building	12,446,010	12,404,052
Furniture, equipment, and building improvements	1,573,341	1,550,621
	<u>14,557,266</u>	14,492,588
Less accumulated depreciation	1,672,689	1,316,331
	<u>\$ 12,884,577</u>	<u>\$ 13,176,257</u>

Note 6. 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, 2019 and 2018.

The Society has a term loan with a bank secured by certain pledged marketable securities and requires monthly principal and interest payments in the amount of \$10,395 through 2028. Interest is fixed at 4.5%. Outstanding borrowings amounted to \$932,128 and \$1,053,573 at September 30, 2019 and 2018, respectively.

The aggregate maturities of long-term debt outstanding at September 30, 2019 are as follows:

<u>Years ending September 30,</u>	
2020	\$ 83,808
2021	87,829
2022	91,918
2023	96,203
2024	100,616
Thereafter	<u>471,754</u>
	932,128
Less current maturities	<u>83,808</u>
	<u>\$ 848,320</u>

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2019 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2018)**

Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions as of September 30, 2019 and 2018 are available for the following purposes or periods:

	2019	2018
Contributions to be received in future years to support the capital campaign, net	\$ 32,097	\$ 99,954
Restricted for specific programs	465,643	283,262
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	100,000	100,000
	\$ 1,384,690	\$ 1,270,166

Net assets were released from donor restrictions for the years ended September 30, 2019 and 2018 as follows:

	2019	2018
Satisfaction of program restrictions:		
Expended for construction of new facility	\$ 67,857	\$ 87,243
Incurring expenses for program activities	13,525	45,988
	\$ 81,382	\$ 133,231

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2019 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2018)**

Note 8. Board-Designated Fund

The Society’s Board of Directors has established a board-designated fund, from net assets without donor restrictions, 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, 2019 and 2018 are as follows:

	2019	2018
Board-designated fund, beginning balance	\$ 7,639,372	\$ 7,977,498
Contributions	934,281	244,468
Investment return:		
Interest and dividend income	169,574	172,676
Gain (loss) on investments	(185,458)	553,589
	(15,884)	726,265
Appropriation of board-designated fund investment assets for expenditure	(715,480)	(1,308,859)
Board-designated fund, ending balance	\$ 7,842,289	\$ 7,639,372

The board-designated fund at September 30, 2019 and 2018 is designated for the following:

	2019	2018
Board-designated to balance the operating budget	\$ 1,714,867	\$ 1,790,505
Board-designated for long-term use	6,127,422	5,848,867
Board-designated fund	\$ 7,842,289	\$ 7,639,372

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.

THE ERIE COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

**2019 NOTES TO FINANCIAL STATEMENTS
(With Comparative Financial Information for 2018)**

Note 9. Donor-Restricted Funds

Changes in the donor-restricted funds for the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Donor-restricted funds, Beginning of year	<u>\$ 1,109,048</u>	<u>\$ 945,312</u>
Contributions	<u>151,890</u>	<u>152,048</u>
Investment return:		
Interest and dividend income	23,198	21,905
Gain (loss) on investments	<u>(20,774)</u>	<u>70,479</u>
	<u>2,424</u>	<u>92,384</u>
Appropriation of donor-restricted funds for expenditure	<u>(2,424)</u>	<u>(80,696)</u>
Donor-restricted funds, End of year	<u>\$ 1,260,938</u>	<u>\$ 1,109,048</u>

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