

ANIMAL WELFARE SOCIETY, INC.

**Financial Statements
for the year ended June 30, 2017**

(See Independent Auditor's Report)

M^cLeod | Ascanio

Certified Public Accountants

Scott A. M^cLeod
Managing Principal

James Ascanio
Managing Principal

Sally Swanson
Principal

Matthew R. Barbour
Principal

Independent Auditor's Report

To the Board of Directors of
Animal Welfare Society, Inc.

We have audited the accompanying financial statements of Animal Welfare Society, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, except for the issue noted in the Known Departure from Accounting Principles Generally Accepted in the United States of America paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Welfare Society, Inc. as of June 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.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the year ended June 30, 2017
(See Independent Auditor's Report)

Known Departure from Accounting Principles Generally Accepted in the United States of America

As disclosed in Note 1 to the financial statements, accounting principles generally accepted in the United States of America require that fixed assets be depreciated over their estimated useful lives. The Society has computed depreciation on some of its fixed assets in accordance with the Modified Accelerated Cost Recovery System required for federal income tax purposes, which does not allocate depreciation to expense over the estimated useful lives of the assets. The effects of this departure from accounting principles generally accepted in the United States of America on financial position, results of operations, and cash flows have not been determined.

Report on Prior Year Financial Statements

The financial statements of Animal Welfare Society, Inc. as of, and for the three months ended, June 30, 2016 were audited by another auditor, whose report dated December 2, 2016 expressed an unmodified audit opinion on those audited financial statements.

McLeod / Ascarido

Portland, Maine
September 27, 2017

ANIMAL WELFARE SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
as of June 30, 2017
(See Independent Auditor's Report)

ASSETS

Current assets:	
Cash and equivalents	\$ 16,796
Accounts receivable	15,084
Investments	5,041,385
Inventory	44,192
Prepaid expenses	7,802
Restricted fiduciary cash	6,429
Total current assets	<u>5,131,688</u>
Property, plant and equipment:	
Land and improvements	778,698
Building and improvements	1,623,452
Furniture, fixtures and equipment	276,125
Vehicles	83,803
Construction in progress	938,911
	<u>3,700,989</u>
Less accumulated depreciation	1,387,751
Total property, plant and equipment	<u>2,313,238</u>
Other assets:	
Beneficial interest in charitable trusts	228,200
Intangible assets, net	20,794
Total other assets	<u>248,994</u>
Total Assets	<u><u>\$ 7,693,920</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Line of credit	\$ 147,000
Accounts payable	293,363
Accrued expenses	133,193
Fiduciary liability	6,429
Deferred revenue	1,290
Capital lease obligation, current portion	3,221
Total current liabilities	<u>584,496</u>
Capital lease obligation, less current portion	6,104
Net assets:	
Without donor restrictions:	
Board-designated as funds functioning as endowment	3,109,856
Undesignated	2,612,138
With donor restrictions	1,381,326
Total net assets	<u>7,103,320</u>
Total Liabilities and Net Assets	<u><u>\$ 7,693,920</u></u>

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

ANIMAL WELFARE SOCIETY, INC.

STATEMENT OF ACTIVITIES

for the year ended June 30, 2017

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains and other support:			
Contributions and bequests	\$ 1,371,361	\$ 619,971	\$1,991,332
Municipal fees	189,859	-	189,859
Adoption fees	496,845	-	496,845
Shelter services	238,151	-	238,151
Merchandise sales	47,038	-	47,038
Fundraising and special events	65,339	-	65,339
In-kind donations	97,366	-	97,366
Other income	1,549	-	1,549
Net assets released from restrictions:			
Satisfaction of purpose restrictions	816,235	(816,235)	-
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	202,716	(202,716)	-
Total operating revenues, gains and other support	3,526,459	(398,980)	3,127,479
Operating expenses:			
Program services	2,553,043	-	2,553,043
Management and general	367,220	-	367,220
Fundraising	332,278	-	332,278
Total operating expenses	3,252,541	-	3,252,541
Operating revenues, gains and other support in excess (deficit) of operating expenses	273,918	(398,980)	(125,062)
Other changes:			
Dividends and interest, net of fees totaling \$30,608	118,521	-	118,521
Realized and unrealized gains (losses) on investments, net	527,212	-	527,212
Change in value of beneficial interest in charitable trusts	-	14,707	14,707
Gains (losses) on disposal of property, plant and equipment, net	(60,620)	-	(60,620)
Change in net assets	859,031	(384,273)	474,758
Net assets at beginning of year	4,862,963	1,765,599	6,628,562
Net assets at end of year	\$ 5,721,994	\$1,381,326	\$ 7,103,320

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

ANIMAL WELFARE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2017
(See Independent Auditor's Report)

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,279,253	\$ 228,046	\$ 201,856	\$ 1,709,155
Veterinary fees	290,755	-	-	290,755
Shelter operations	118,393	6,444	33,543	158,380
Payroll taxes	104,918	18,186	16,787	139,891
Employee benefits	99,684	17,279	15,949	132,912
Depreciation and amortization	112,941	2,972	2,972	118,885
Veterinary supplies	117,470	-	-	117,470
Animal transport	109,422	-	-	109,422
In-kind donations	97,366	-	-	97,366
Repairs and maintenance	38,047	10,386	-	48,433
Professional fees	20,618	19,690	270	40,578
Bank and payroll fees	16,057	18,584	2,473	37,114
Pension expense	27,717	4,804	4,435	36,956
Occupancy	34,819	916	916	36,651
Insurance	21,922	2,806	6,104	30,832
Office supplies and postage	3,908	15,423	8,304	27,635
Merchandise for resale	19,599	-	-	19,599
Telephone and internet	12,027	1,977	2,472	16,476
Printing and publications	3,383	56	11,252	14,691
Advertising	-	-	13,717	13,717
Educational expense	6,957	2,483	1,360	10,800
Travel and vehicle expenses	7,835	2,154	205	10,194
Fundraising and special events	-	-	9,203	9,203
Bad debt expense	7,627	-	-	7,627
Miscellaneous	1,323	5,189	-	6,512
Interest expense	-	5,047	-	5,047
Computer services	90	3,350	-	3,440
Dues and licenses	912	1,428	460	2,800
Total expenses	<u>\$ 2,553,043</u>	<u>\$ 367,220</u>	<u>\$ 332,278</u>	<u>\$ 3,252,541</u>

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

ANIMAL WELFARE SOCIETY, INC.

STATEMENT OF CASH FLOWS

as of June 30, 2017

(See Independent Auditor's Report)

Cash flows from operating activities:

Change in net assets	\$ 474,758
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	118,885
(Gains) losses on disposal of property, plant and equipment, net	60,620
Realized and unrealized (gains) losses on investments, net	(527,212)
Change in value of beneficial interest in charitable trusts	(14,707)
Donated investments	(77,408)
(Increase) decrease in operating assets:	
Accounts receivable	(4,874)
Bequests receivable	31,001
Inventory	(7,738)
Prepaid expenses	6,376
Other assets	1,700
Increase (decrease) in operating liabilities:	
Accounts payable	213,213
Accrued expenses	25,253
Change in fiduciary liability	6,429
Deferred revenue	(11,440)

Net cash provided by operating activities	<u>294,856</u>
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Cash flows from investing activities:

Proceeds from sale of property, plant and equipment	91,380
Purchases of property, plant and equipment	(2,000)
Additions to construction in progress	(906,454)
Proceeds from sale of investments	2,751,342
Purchases of investments	(2,259,519)

Net cash used by investing activities	<u>(325,251)</u>
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Cash flows from financing activities:

Principal payments on capital lease obligation	(3,145)
Net proceeds (repayments) on line of credit	(33,000)

Net cash used by financing activities	<u>(36,145)</u>
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Net change in cash and equivalents, and restricted fiduciary cash during the year	(66,540)
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Cash and equivalents, and restricted fiduciary cash at beginning of year	<u>89,765</u>
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Cash and equivalents, and restricted fiduciary cash at end of year	<u><u>\$ 23,225</u></u>
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Supplemental cash flow disclosures:

Cash paid for interest	<u><u>\$ 6,512</u></u>
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ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the year ended June 30, 2017
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

Animal Welfare Society, Inc. (the "Society") is a Maine not-for-profit corporation organized on May 31, 1967. The Society exists to provide humane shelter and care to animals temporarily in need of housing, and to further the cause of responsible animal adoption and ownership through education and public awareness. The Society actively promotes kindness, the elimination of cruelty and neglect to all animals, and the lifelong commitment of people to their pets. The Society's principal sources of revenue are donations, fees, investment income and fundraising activities.

Effective July 1, 2016, the Society merged with the Cleo Fund, a Maine not-for-profit corporation existing to provide subsidies to low-income individuals to cover the cost of animal spay and neuter surgeries. All the property, rights, powers, duties, and obligations of the Cleo Fund were transferred to and vested in the Society and its separate existence ceased.

Recently Adopted Accounting Pronouncements

Effective July 1, 2016, the Society adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, prior to its required effective date. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources—and the changes in those resources—to donors, grantors, creditors and other financial statement users.

ASU 2016-14 decreases the number of net asset classes from three to two; requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments; continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, eliminating the requirement for those who use the direct method to perform reconciliation with the indirect method; requires a not-for-profit to provide qualitative and quantitative information regarding its liquidity and availability of resources; and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. The adoption of this ASU had a significant impact on the presentation of the Society's financial statements.

During the year ended June 30, 2017, the Society also adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, prior to its required effective date. The amendments in this ASU require that amounts generally described as restricted cash should be included with cash and equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets, support, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society, and changes therein, are classified and reported as follows:

Net Assets with Donor Restrictions

Net assets subject to donor-imposed restrictions that may/will be met, either by actions of the Society and/or the passage of time, or that net assets be maintained permanently by the Society. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the year ended June 30, 2017
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Cash and Equivalents

Cash and equivalents include cash in banks and all highly liquid investments with original maturities of three months or less at the time of purchase. 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 risk on cash and equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, or reserves against, any specific accounts deemed to have collection risks. No allowance for bad debt was considered necessary at June 30, 2017.

Pledges Receivable

Unconditional pledges receivable are recorded as contributed income in the statement of activities in the year pledged, along with collected pledges. The Society uses the allowance method to account for uncollectible pledges. The allowance is based on management's estimate of possible bad debts. At June 30, 2017, the Society had no unconditional pledges receivable and, thus, no allowance for uncollectible pledges was necessary.

Unconditional pledges receivable that are not fully collectible within one year are recorded at their present value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Conditional pledges are not recorded until the conditions on which they depend are substantially met.

Bequests Receivable

The Society is a beneficiary under various wills and trust agreements, some of which the total realizable amount is not presently determinable. Amounts are recorded when a will or trust is declared valid by a probate court and the proceeds are measurable. At June 30, 2017, no bequests met this criteria for recognition as bequests receivable in the statement of financial position.

Inventory

Inventory consists of veterinary supplies, apparel and other items held for sale and is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Restricted Fiduciary Cash and Liability

The Society acts as a fiduciary for two local dog parks. In this capacity, the Society collects and safeguards donations on behalf of the parks and remits funds as the parks incur expenses and submit requests for reimbursement. The Society acts as a pass-through entity and all fiduciary activities are excluded from its statement of activities.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Contributed assets are carried at their fair market value at the time of the gift. Depreciation is computed using the straight-line and Modified Accelerated Cost Recovery System methods of depreciation over the assets' estimated useful lives as follows:

	<u>Years</u>
Land improvements	10-15
Building and improvements	15-39
Furniture, fixtures and equipment	3-15
Vehicles	5

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the year ended June 30, 2017
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property, Plant and Equipment (continued)

Expenditures for major renewals and betterments, which extend the useful lives of property, plant and equipment, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. For assets sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities.

Depreciation expense for the year ended June 30, 2017 was \$105,082.

Intangible Assets

Intangible assets consist of website development costs of \$69,013. These costs are amortized over an estimated useful life of five years and had the net value of \$20,794 as of June 30, 2017.

Amortization expense for the year ended June 30, 2017 was \$13,803.

Deferred Revenue

Deferred revenue consists of advanced payments received.

Measure of Operations

In its statement of activities, the Society includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Non-operating support and revenues include such items as: dividends and interest, net of brokerage fees; realized and unrealized gains and losses on investments; change in value of beneficial interest in charitable trusts; and gains and losses on disposal of property, plant and equipment.

Revenue Recognition

Contributions received are recorded as unrestricted or restricted support, depending on the existence of any donor restrictions, when a binding commitment has been made by the donors. Adoption fees are recognized when the animal has been placed with an individual for adoption. Municipal fee income is recognized based on the terms of the contract. Funds received in advance of work performed are recorded as deferred revenue until earned.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, restricted by the donor in perpetuity, or for specific purposes are reported as an increase in net assets with donor restrictions. When a donor restriction expires (i.e. 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 as net assets released from restrictions.

Donated Services and Items

The Society recognizes donated marketable securities and other noncash items at their estimated fair values at the date of donation. Donated services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses

Expenses are presented by both their nature and function in the statement of functional expenses. Certain categories of expenses are attributable to more than one program or supporting function and, thus, require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation and amortization, which are allocated on a square-footage basis; and salaries and wages, employee benefits, payroll taxes, and pension expense, which are allocated on the basis of estimates of time and effort. All other expenses are allocated based on the actual expenditures incurred by related programs and departments and are tracked in the Society's accounting software by function.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the year ended June 30, 2017
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Advertising

Advertising costs are expensed as they are incurred. Advertising costs for the year ended June 30, 2017 were \$13,717.

Income Tax Status

The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, it qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Therefore, no provision for federal income tax is required.

Management has evaluated the Society's tax positions and concluded that as of June 30, 2017, the Society does not believe that it has taken any tax positions that would require adjustments to the financial statements. The Society is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the year ended June 30, 2014 through 2017.

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates. In the opinion of management, the accompanying financial statements include all normal and recurring adjustments that are necessary to fairly present the financial position, results of operations and cash flows of the Society.

2. INVESTMENTS:

Investments are carried at fair value, and realized and unrealized gains and losses are reflected within investment return, net, in the statement of activities. Investments were composed of the following as of June 30, 2017:

	Cost	Fair Value
Cash and equivalents	\$ 991,619	\$ 991,619
Fixed income	311,022	311,832
Equity and options	2,183,415	3,097,099
Mutual funds, EFTs and closed-end funds	588,540	640,835
Total	<u>\$ 4,074,596</u>	<u>\$ 5,041,385</u>

Investments are held in two investment pools. Pool A is for permanent endowments, board-designated funds functioning as endowments, and the unappropriated net appreciation of those endowments. Pool B is for amounts designated by the Board of Directors for investment. Investment activity during the year ended June 30, 2017 is reflected in the following table:

	Pool A	Pool B	Total
Investments at beginning of year	\$ 3,743,919	\$ 1,184,669	\$ 4,928,588
Gifts available for investment:			
Gifts creating permanent endowment	31,001	-	31,001
Gifts designated for investment	-	852,408	852,408
Investment returns, net:			
Dividends and interest	71,941	46,536	118,477
Realized and unrealized gains	424,769	102,443	527,212
Total return on investments	496,710	148,979	645,689
Amounts appropriated for current operations	(158,501)	(1,257,800)	(1,416,301)
Investments at end of year	<u>\$ 4,113,129</u>	<u>\$ 928,256</u>	<u>\$ 5,041,385</u>

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
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(See Independent Auditor's Report)

3. ENDOWMENT FUNDS:

As of June 30, 2017, \$1,003,273 of Pool A investment balance as described in Note 2 represented donor-restricted permanent endowment funds consisting of the original value of payments from two bequests required to be added to the Society's general endowment and the income only to be utilized for the general use of the Society. The remaining balance of Pool A investments consisted of funds without donor restrictions which were designated by the Board of Directors of the Society as a general endowment fund to support the mission of the Society.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Since the amount of funds designated by the Board of Directors to function as endowments resulted from an internal designation and is not donor-restricted, the designation is classified and reported as net assets without donor restrictions. Permanent endowment funds are classified and reported as net assets with donor restrictions.

Laws and regulations allow the Board of Directors to appropriate so much of an endowment fund as is prudent considering the following relevant factors: the duration and preservation of the endowment fund; the purposes of the Society and the endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments, the Society's other resources; and the Society's investment policy.

The Society's investment spending policy consists of distributing monthly, or as deemed necessary, net investment income including interest, dividends and capital gain distributions from investments. The Society spends the earnings of the above funds for purposes as deemed necessary by the Society. Over the long-term, the Society expects the current policy to allow its endowment funds to grow at an average of 3-4% annually. This is consistent with the Society's objective to provide a predictable stream of funding from its endowment funds, while also maintaining the purchasing power of the endowment assets and providing additional real growth through investment return. The fund will meet this objective by investing endowment funds in fixed income and equity investments.

4. CONSTRUCTION IN PROGRESS:

The Society entered into various agreements to purchase construction and architectural services related to the renovation and expansion of the Society's facilities, and to construct a road and a parking lot to accommodate the expansion. As of June 30, 2017, the Society paid \$938,911 under these agreements and the construction was still ongoing. The costs of construction work, which is not yet completed, were recorded as construction in progress (CIP) asset on the statement of financial position and are not being depreciated until the asset is placed in service. Upon construction completion, assets will be classified between property, plant and equipment categories on the statement of financial position and depreciated accordingly.

5. BENEFICIAL INTEREST IN CHARITABLE TRUSTS:

The Society is a beneficiary of the following charitable trusts at June 30, 2017:

Conderman Charitable Remainder Unitrust

The Society is a residual charitable beneficiary of the Penelope G. Bridge Conderman living trust held and administered by an outside trustee. Under the terms of the trust, one life-time income beneficiary currently receives, first from income and, to the extent that income is insufficient, from principal, a total annuity each year equal to 6% of the net fair market value of the trust assets as of the first day of the trust year.

Upon the death of the beneficiary, 16.667% percent of the remaining principal is to be distributed to the Society. The expected future cash flow, discounted at a rate of 2.6% and a 6.5 year remaining life expectancy of the income beneficiary, of \$43,541 represents the Society's share of the fair market value of the trust principal at June 30, 2017. The actual rate of return and life of the income beneficiary could differ from these amounts. Changes in the value of the trust have been reported in the statement of activities as increases in net assets with donor restrictions.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the year ended June 30, 2017
(See Independent Auditor's Report)

5. BENEFICIAL INTEREST IN CHARITABLE TRUSTS (CONTINUED):

The Clark Foundation Charitable Trust

The Society is a beneficiary of the Virginia Clark Robinson Foundation charitable trust that was established in perpetuity and is held and administered by an outside trustee. The Society will receive annual distributions equal to 8.33% of the income of the trust in perpetuity. The trust's owned assets for the benefit of the Society had a market value of \$184,659 as of June 30, 2017. Distributions from the trust totaled \$7,184 during the year ended June 30, 2017.

6. FAIR VALUE MEASUREMENTS:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Society uses various methods including market, income and cost approaches. Based on these approaches, the Society often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Society utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Society is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In determining the appropriate levels, the Society performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the year ended June 30, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Beneficial interest in charitable trusts

The fair value of a split interest agreement, classified as beneficial interest in charitable trusts within the statement of financial position, has been measured using an income approach that utilizes present value techniques using Level 2 inputs for interest rates, yield curves, and life expectancy tables, as described in Note 5.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
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(See Independent Auditor's Report)

6. FAIR VALUE MEASUREMENTS (CONTINUED):

Assets itemized below were measured at fair value using market approach for Level 1 measurements and income approach for Level 2 measurements.

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

	Fair Value	Fair Value Measurements At Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
Investments	\$ 5,041,385	\$ 5,041,385	\$ -	\$ -
Beneficial interest in charitable trusts	228,200	-	228,200	-
	<u>\$ 5,269,585</u>	<u>\$ 5,041,385</u>	<u>\$ 228,200</u>	<u>\$ -</u>

There were no transfers between the levels in the fair value hierarchy during the years ended June 30, 2017.

The carrying amounts of cash and equivalents, restricted fiduciary cash, accounts receivables, inventory, prepaid expenses, line of credit, accounts payable, accrued expenses, fiduciary liability, deferred revenue, and capital lease obligation approximate fair value.

7. LINE OF CREDIT:

In December 2010, the Society obtained a \$200,000 revolving line of credit from a local bank to help finance its short-term cash flow needs. This line is secured by a mortgage on the Society's real property located in Kennebunk, Maine and any leases and rents on the property. Interest is payable monthly based on the outstanding balance at the highest U.S. Prime Rate as published in The Wall Street Journal. The line of credit matures on May 15, 2019.

At June 30, 2017, the line's effective rate of interest was 4.25%. As of June 30, 2017, \$147,000 was outstanding on the line of credit. Interest expense for the year ended June 30, 2017 was \$5,047.

8. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for specific purposes:

Restricted to spay/neuter programs	\$ 81,641
Restricted to courtyard project	9,569
Restricted to other uses	58,643

Subject to the passage of time:

Beneficial interest in Conderman charitable remainder unitrust, Note 5	43,541
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Not subject to appropriation and expenditure:

Beneficial interest in the Clark Foundation charitable trust, Note 5	184,659
Donor-designated permanent endowment funds, Note 3	1,003,273

Total	<u>\$ 1,381,326</u>
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9. NET ASSETS RELEASED FROM DONOR RESTRICTIONS:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows:

Purpose restrictions accomplished:

Restricted to clinic renovation	\$ 634,332
Restricted to spay/neuter programs	121,656
Restricted to Animal Resource Center	10,000
Restricted to other uses	50,248
Release of appropriated endowment amounts with purpose restrictions	<u>202,716</u>
Total restrictions released	<u><u>\$ 1,018,951</u></u>

10. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following reflects the Society's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts designated by the Board of Directors of the Society as a general endowment fund that could be drawn upon if the Board of Directors approves that action. However, amounts already appropriated from the board-designated endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

Financial assets, at year-end	\$ 5,315,696
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donors with time or purpose restrictions	193,394
Restricted by donors in perpetuity	1,187,932
Board-designated as funds functioning as endowment	2,949,856
Fiduciary cash held on behalf of the beneficiaries	<u>6,429</u>
Financial assets available to meet cash needs for general expenditure within one year	<u><u>\$ 978,085</u></u>

The Society is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Society must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Society also could draw upon its available line of credit (as further discussed in Note 7) or its board-designated endowment fund.

11. LEASES:

The Society is a lessee of phone equipment under a capital lease expiring during the year ending June 30, 2020. The asset and liability under this capital lease are recorded at the present value of the future minimum lease payments. The asset is depreciated over its estimated productive life. Depreciation of the asset under this capital lease is included in depreciation expense for the year ended June 30, 2017.

Following is a summary of property held under the capital lease:

Phone equipment	\$ 16,043
Less accumulated amortization	<u>(7,219)</u>
Total	<u><u>\$ 8,824</u></u>

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11. LEASES (CONTINUED):

The future minimum lease payments for the years ending June 30 are as follows:

2018	\$ 3,411
2019	3,411
2020	2,843
Net minimum lease payments	9,665
Less amount representing interest	(340)
Present value of net minimum lease payments	<u>\$ 9,325</u>

The Society leases several office copiers under a five-year operating lease expiring in 2020. The future minimum lease payments for the years ending June 30 are as follows:

2018	\$ 2,928
2019	2,928
2020	2,196
Total	<u>\$ 8,052</u>

12. RETIREMENT PLANS:

Effective January 1, 2017, the Society adopted a 401(k) profit sharing plan under which the Society matches eligible participants' contributions to the plan on a 1:1 basis up to 3% of the individual participant's compensation. In addition, the plan allows for discretionary profit sharing, which is determined by management and is allocated pro rata to eligible participant accounts based on the eligible participant's compensation in relation to the total compensation of all eligible participants.

Prior to January 1, 2017, the Society had a simple IRA contribution plan for eligible full-time employees. The Society matched employee contributions on a 1:1 basis up to 3% of an employee's compensation.

The total matching contributions to the plans were \$36,956, and there were no elective profit sharing contributions, for the year ended June 30, 2017.

13. SPECIAL EVENTS:

Special events consisted of the following for the year ended June 30, 2017:

	Special Events		
	Revenue	Expenses	Net
Strutt your Mutt	\$ 53,461	\$ (7,867)	\$ 45,594
Antique Show	11,878	(1,161)	10,717
	<u>\$ 65,339</u>	<u>\$ (9,028)</u>	<u>\$ 56,311</u>

14. RISKS AND UNCERTAINTIES:

The Society invests in various investment securities and money market funds. Due to the level of risk associated with investments, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amount reported in the statement of financial position.

15. MERGER:

As describe in Note 1, effective July 1, 2016, the Society and the Cleo Fund merged. Through their merger, the entities seek to further the common mission of providing discounted spay and neuter services within the geographic region in the most cost effective and efficient way.

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15. MERGER (CONTINUED):

As of the merger date, the Cleo Fund's separate existence ceased and the following amounts for each class of assets, liabilities and net assets were recognized on the Society's statement of financial position:

Assets:	
Cash	\$ 21,352
Bequests receivable	31,001
Investments	1,496,944
Property, plant and equipment, net	18,638
Other assets	14,760
Total assets	<u>\$ 1,582,695</u>
Liabilities:	
Accounts payable	\$ 19,491
Total liabilities	<u>19,491</u>
Net assets:	
Without donor restrictions	492,709
With donor restrictions	1,070,495
Total net assets	<u>1,563,204</u>
Total liabilities and net assets	<u><u>\$ 1,582,695</u></u>

16. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 27, 2017, the date the financial statements were available to be issued.

No matters have arisen since year-end through the date of management's evaluation date that would require adjustment to the financial statements or disclosures presented herein.