

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF  
CRUELTY TO ANIMALS, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2012**

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
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**December 31, 2012**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Niagara County Society for the Prevention of Cruelty to Animals, Inc.

We have audited the accompanying financial statements of the Niagara County Society for the Prevention of Cruelty to Animals, Inc. ("SPCA", a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the SPCA's 2011 financial statements, and in our report, dated September 18, 2012; we expressed an unqualified opinion on those financial statements.

### Management's Responsibility for the Financial Statements

The Organization's management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. 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 controls 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 Niagara County Society for the Prevention of Cruelty to Animals, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

*Gaines Kriner Elliott LLP*

March 6, 2013  
Amherst, New York

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2012 and 2011**

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<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Cash	\$ 36,090	\$ 60,475
Accounts receivable, net	9,958	4,590
Prepaid expenses	<u>6,409</u>	<u>1,582</u>
Total current assets	52,457	66,647
Investments	669,585	683,004
Property and Equipment, net	<u>562,200</u>	<u>598,439</u>
	<u>\$ 1,284,242</u>	<u>\$ 1,348,090</u>
 <b>LIABILITIES AND NET ASSETS</b>  		
Liabilities		
Accounts payable	\$ 9,060	\$ 15,796
Accrued expenses	11,017	7,066
Deferred revenue	<u>2,970</u>	<u>2,970</u>
Total current liabilities	23,047	25,832
Net Assets		
Unrestricted net assets		
Designated by the Board of Directors for future betterment	657,269	670,443
Undesignated	<u>576,610</u>	<u>639,255</u>
Total unrestricted net assets	1,233,879	1,309,698
Temporarily restricted net assets	<u>27,316</u>	<u>12,560</u>
	<u>1,261,195</u>	<u>1,322,258</u>
	<u>\$ 1,284,242</u>	<u>\$ 1,348,090</u>

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

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Changes in Unrestricted Net Assets		
Operating revenues		
Animal related services and contributions	\$ 350,083	\$ 356,193
Municipal contract income	239,178	250,476
In-kind donations	67,885	16,204
Bequests	63,245	141,939
Membership dues	5,830	2,690
Other	5,652	8,979
Net assets released from restrictions	-	807
Total operating revenues	<u>731,873</u>	<u>777,288</u>
Expenses		
Animal related services	675,119	506,967
Management and general	174,953	167,360
Fundraising	<u>52,292</u>	<u>64,874</u>
	<u>902,364</u>	<u>739,201</u>
Changes in net assets from operating activities	(170,491)	38,087
Other Income/(Expense)		
Interest and dividends	18,187	16,591
Investment advisory fees	(4,687)	(4,178)
Gain on sale of vehicles	17,822	-
Net investment appreciation/(depreciation)	<u>63,350</u>	<u>(23,698)</u>
	<u>94,672</u>	<u>(11,285)</u>
Changes in unrestricted net assets	(75,819)	26,802
Changes in Temporarily Restricted Net Assets		
Contributions	15,000	-
Interest	1	1
Investment advisory fees	(245)	(150)
Net assets released from restrictions	<u>-</u>	<u>(807)</u>
Changes in temporarily restricted net assets	<u>14,756</u>	<u>(956)</u>
Changes in net assets	(61,063)	25,846
Net Assets, Beginning of Year	<u>1,322,258</u>	<u>1,296,412</u>
Net Assets, End of Year	<u>\$ 1,261,195</u>	<u>\$ 1,322,258</u>

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

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2012 and 2011**

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	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Changes in net assets	\$ (61,063)	\$ 25,846
Adjustments to reconcile changes in net assets to net cash provided by/(used for) operating activities:		
Depreciation	37,452	46,273
Change in other liabilities	-	(10,832)
Reinvested interest and dividend income	(18,163)	(16,564)
Investment expenses charged to portfolio	4,932	4,328
Gain on sale of vehicles	(17,822)	-
Net realized and unrealized losses/(gains) on investments	(63,350)	23,698
Increase/(decrease) in bad debt allowance	(20,515)	20,515
Changes in assets and liabilities affecting operating cash flows:		
Accounts receivable	15,147	(19,983)
Prepaid expenses	(4,827)	(9)
Accounts payable and accrued expenses	(2,785)	(32,884)
Deferred revenue	-	495
	<u>                    </u>	<u>                    </u>
Net cash provided by/(used for) operating activities	(130,994)	40,883
Cash Flows From Investing Activities:		
Purchases of property and equipment	(3,741)	(1,290)
Proceeds from the sale of vehicles	20,350	-
Investments made	-	(15,000)
Investments withdrawn	90,000	32,807
	<u>                    </u>	<u>                    </u>
Net cash provided by investing activities	106,609	16,517
Net change in cash	(24,385)	57,400
Cash, Beginning of Year	<u>60,475</u>	<u>3,075</u>
Cash, End of Year	<u>\$ 36,090</u>	<u>\$ 60,475</u>

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

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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**NOTE 1 - BUSINESS ACTIVITY**

**Organization** - The Niagara County Society for the Prevention of Cruelty to Animals, Inc., (the "SPCA"), a not-for-profit organization, has been serving the Niagara County community since 1894, overseeing the welfare of companion and working animals and assisting the public with animal-related services such as relinquishment, adoption, dog control and pick-up of sick and injured animals. Additionally, the SPCA has been a place not only to surrender an animal in need of a new beginning or to adopt a new companion, but a place that parents visit with their children on evenings or weekends to view the animals available for adoption. It has been a place to engage the youth of this community and to teach them compassion and respect for all life, human and animal alike.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The financial statements are prepared on the accrual basis of accounting and according to current accounting standards, which require that all non-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. Classification of net assets and revenues, expenses, gains and losses is based on the existence or absence of donor-imposed restrictions. The standards also require that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The SPCA accounts for contributions in accordance with current accounting standards, which require an organization to recognize contributions, including unconditional promises to give, as revenue when received. These standards also require non-profit organizations to distinguish between contributions received that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets, and require recognition of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

The SPCA includes all revenues and expenses necessary for program operations and the administration of the SPCA in operating activities. Non-operating activities primarily include investment income and realized and unrealized appreciation or depreciation of investments, which are not used for program or administrative purposes.

**Cash** - The SPCA maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The SPCA has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk with regard to its cash.

**Accounts Receivable** - Management considers all accounts receivable outstanding for greater than the specified term to be past due, and uses factors such as customer history and existing economic conditions to determine the likelihood of collection and whether to establish an allowance for doubtful accounts. Upon management's determination of uncollectibility, such accounts are written off or reserved through the allowance for doubtful accounts. Management has determined that an allowance for doubtful accounts was not necessary at December 31, 2012. Management has determined that an allowance for doubtful accounts of \$20,515 for the year ended December 31, 2011, was deemed necessary for potentially uncollectible amounts.

**Investments** - Investments are presented in the financial statements at fair market value. Realized and unrealized gains and losses are recorded in the statements of activities and changes in unrestricted net assets.

Generally accepted accounting principles establish a hierarchy for the determination of fair value, as well as disclosure requirements relative to those assets and liabilities. The hierarchy identifies three levels of input. Level 1 inputs are generally quoted market prices for identical assets or liabilities, which are actively traded on an exchange. Level 2 inputs generally consist of market prices for identical assets which are not actively traded or market prices of similar assets or liabilities which are actively traded, on an exchange. Level 3 inputs are referred to as unobservable inputs and consist primarily of information derived by the management where Level 1 and Level 2 inputs are not available.

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Property and Equipment** - Property and equipment are stated at cost or fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method (3 - 40 years).

**Municipal Contract Income** - The SPCA enters into contractual agreements for services rendered to municipalities for animal control services. The contracts generally cover periods of one to five years and provide for billing and payments on a monthly basis. Approximately 55% of the SPCA's municipal contract revenues were derived from two municipalities for the years ended December 31, 2012 and 2011.

**Functional Allocation of Expenses** - The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Tax Status** - The Society is a 501(c)(3) organization exempt from Federal and New York State income taxes under Section 501(a) of the Internal Revenue Code.

**In-Kind Donations** - In-kind donations primarily consist of donated veterinary services and professional fees and are recorded in the financial statements when they are specifically identifiable and can be objectively valued. Total in-kind donations amounted to approximately \$67,900 and \$16,000 for the years ended December 31, 2012 and 2011, respectively.

Additionally, a number of unpaid volunteers have made significant contributions of their time to support the SPCA. No accounting recognition is made for the fair market value of services provided by volunteer personnel as no objective basis is available to measure the value of such services.

**Advertising** - Advertising costs are expensed in the period in which the advertising takes place. Advertising expense for the years ended December 31, 2012 and 2011 was approximately \$6,000 and \$3,400, respectively.

**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 certain amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Reclassifications** - The financial statements for the year ended December 31, 2011, including certain net asset balances, have been reclassified to conform with the presentation adopted for 2012.

**Subsequent Events** - Management of the SPCA has evaluated the effects of all subsequent events through March 6, 2013, the date the financial statements were available to be issued, to determine if events or transactions occurring through that date require potential adjustment or disclosure in the financial statements.

**NOTE 3 - INVESTMENTS**

The SPCA's investments are recorded at fair value based on quoted market prices (Level 1), with unrealized gains and losses reported as a separate component of each class of net assets. Net realized and unrealized gains (losses) on investments arising during 2012 and 2011 are reflected in other changes in unrestricted or temporarily restricted net assets in the accompanying statements of activities and changes in net assets. Realized gains and losses from the sale of securities are recognized on the trade date using the specific identification method.



**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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**NOTE 3 - INVESTMENTS (CONT'D)**

The fair value of the investments (all Level 1) owned by the SPCA consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Cash	\$ 73,653	\$ 113,521
Common stocks	314,296	244,898
Mutual funds - primarily global and domestic equities	136,118	209,114
Corporate bonds	145,518	104,875
Certificate of deposit	<u>-</u>	<u>10,596</u>
	<u>\$ 669,585</u>	<u>\$ 683,004</u>

The following schedule summarizes the investment income (losses) and their classification in the statements of activities for the years ended December 31:

	<u>2012</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized gains	\$ 63,350	\$ -	\$ 63,350
Interest and dividend income	18,187	1	18,188
Investment advisory fees	<u>(4,687)</u>	<u>(245)</u>	<u>(4,932)</u>
Total investment income	<u>\$ 76,850</u>	<u>\$ (244)</u>	<u>\$ 76,606</u>
	<u>2011</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized losses	\$ (23,698)	\$ -	\$ (23,698)
Interest and dividend income	16,591	1	16,592
Investment advisory fees	<u>(4,178)</u>	<u>(150)</u>	<u>(4,328)</u>
Total investment income	<u>\$ (11,285)</u>	<u>\$ (149)</u>	<u>\$ (11,434)</u>

Generally accepted accounting principles require that impaired investments, that is, investments for which the fair value is less than its cost, be evaluated as to whether such impairment is other than temporary. Since the SPCA has the ability and the intent to hold the securities until a recovery in fair value occurs (or until maturity if necessary), no investments have been deemed impaired as of December 31, 2012.

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 90,613	\$ 90,613
Building and improvements	1,002,160	1,000,172
Pet cemetery	194,433	194,433
Equipment and vehicles	<u>238,629</u>	<u>299,798</u>
	1,525,835	1,585,016
Less accumulated depreciation	<u>963,635</u>	<u>986,577</u>
	<u>\$ 562,200</u>	<u>\$ 598,439</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$37,452 and \$46,273, respectively.

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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**NOTE 5 - POSTRETIREMENT BENEFIT OBLIGATION**

In 2009, the SPCA entered into an agreement to provide lifetime health insurance and life insurance subsidy benefits to a former Executive Director. During the year ended December 31, 2012, based on the advice of legal counsel, management has determined that the original agreement was not a binding contract and accordingly, the SPCA has no liability to provide these benefits. As a result, the corresponding liability has been eliminated in the financial statements and net assets as of January 1, 2011 have been restated by \$88,945. The former Executive Director, through his attorney, has demanded payment of the benefits under the agreement. The SPCA plans to vigorously defend its position regarding the legitimacy of the agreement.

**NOTE 6 - BOARD DESIGNATED NET ASSETS**

The Board of Directors has designated that the unrestricted portion of the SPCA's investment portfolio be used for the future betterment of the SPCA. The Board has agreed to limit annual operating distributions to \$30,000 per year. However, additional distributions may be taken at the discretion of the Board of Directors.

Changes in Board designated net assets for the years ended December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Net assets, beginning of year	\$ 670,443	\$ 698,755
Additions	-	15,000
Interest and dividend income	18,163	16,564
Investment advisory fees	(4,687)	(4,178)
Net realized and unrealized appreciation/(depreciation)	63,350	(23,698)
Appropriation of assets for expenditure	<u>(90,000)</u>	<u>(32,000)</u>
Net assets, end of year	<u>\$ 657,269</u>	<u>\$ 670,443</u>

During the year ended December 31, 2012, the SPCA has determined that certain net asset balances of approximately \$225,000, previously recorded as temporarily restricted, are in fact, not donor restricted. Accordingly, the balance has been reclassified from temporarily restricted to unrestricted net assets as of January 1, 2011. Additionally, the Board of Directors have designated that these funds will be used for future capital improvements to the SPCA's facility.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2012 and 2011, temporarily restricted net assets represent donor restricted contributions and the related accumulated investment income, which are to be used by the SPCA for its spay/neuter program and for the perpetual care of the SPCA's pet cemetery.

**NOTE 8 - CHARITABLE TRUSTS**

The SPCA has been named as the beneficiary of several charitable remainder trusts and periodically receives distributions of trust assets. The value of the SPCA's share of the trust assets is not recorded in the accompanying financial statements as sufficient information is not available to estimate the SPCA's proportionate share. Income received under these trusts for the years ended December 31, 2012 and 2011 was approximately \$50,000 and \$6,200, respectively.

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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**NOTE 9 - CONTINGENCIES**

The SPCA has been named a defendant in a lawsuit, originating in 2010. The case is in litigation and is being vigorously defended. The financial statements do not include any accrual of loss or attorney fees for this action, as such an estimate cannot be made at this time. However, the SPCA believes its ultimate liability, if any, in connection with this matter will not have a material effect on the SPCA's results of operations or financial position.

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors  
Niagara County Society for the Prevention of Cruelty to Animals, Inc.

We have audited the financial statements of Niagara County Society for the Prevention of Cruelty to Animals, Inc. as of and for the years ended December 31, 2012 and 2011, and our report thereon dated March 6, 2012, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted accounting principles. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Gaines Kriner Elliott LLP*

March 6, 2013  
Amherst, New York

**NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.**  
**SCHEDULES OF FUNCTIONAL EXPENSES**  
**December 31, 2012**

	2012					2011				
	Animal Related Services	Supporting Services		Total Supporting Services	Total Functional Expenses	Animal Related Services	Supporting Services		Total Supporting Services	Total Functional Expenses
		Management and General	Fundraising				Management and General	Fundraising		
Salaries	\$ 254,811	\$ 97,428	\$ 22,483	\$ 119,911	\$ 374,722	\$ 214,152	\$ 81,882	\$ 18,896	\$ 100,778	\$ 314,930
Employee benefits and payroll taxes	77,629	29,682	6,850	36,532	114,161	64,171	24,536	5,662	30,198	94,369
Total salaries and related expenses	332,440	127,110	29,333	156,443	488,883	278,323	106,418	24,558	130,976	409,299
Animal related expenses	217,705	-	-	-	217,705	93,329	-	-	-	93,329
Depreciation	25,093	9,738	2,621	12,359	37,452	31,003	12,031	3,239	15,270	46,273
Supplies	12,073	4,024	11,833	15,857	27,930	7,331	5,564	4,199	9,763	17,094
Occupancy	18,814	6,271	-	6,271	25,085	21,758	7,253	-	7,253	29,011
Vehicle related expenses	20,128	2,368	1,184	3,552	23,680	20,988	2,469	1,235	3,704	24,692
Professional fees	-	19,355	-	19,355	19,355	-	8,860	-	8,860	8,860
Insurance	14,148	2,653	884	3,537	17,685	10,638	1,995	665	2,660	13,298
Maintenance	9,837	-	-	-	9,837	10,216	-	-	-	10,216
Other	6,192	729	364	1,093	7,285	5,275	621	310	931	6,206
Bad debts	7,140	-	-	-	7,140	20,515	-	-	-	20,515
Telephone	5,687	669	335	1,004	6,691	6,174	726	363	1,089	7,263
Advertising and promotion	5,093	599	300	899	5,992	-	2,709	677	3,386	3,386
Direct mail expenses	-	-	5,438	5,438	5,438	-	-	29,143	29,143	29,143
Bank fees	-	1,034	-	1,034	1,034	-	3,211	-	3,211	3,211
Uniforms	769	-	-	-	769	1,209	-	-	-	1,209
Licenses	-	384	-	384	384	-	861	-	861	861
Conferences and other meetings	-	19	-	19	19	-	1,484	-	1,484	1,484
Contract services	-	-	-	-	-	208	13,158	485	13,643	13,851
	<u>\$ 675,119</u>	<u>\$ 174,953</u>	<u>\$ 52,292</u>	<u>\$ 227,245</u>	<u>\$ 902,364</u>	<u>\$ 506,967</u>	<u>\$ 167,360</u>	<u>\$ 64,874</u>	<u>\$ 232,234</u>	<u>\$ 739,201</u>