

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

**Financial Statements as of
December 31, 2016 and 2015
Together with
Independent Auditor's Report**

INDEPENDENT AUDITOR'S REPORT

October 18, 2017

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

Report on the Financial Statements

We have audited the accompanying financial statements of Niagara County Society for the Prevention of Cruelty to Animals, Inc. ("SPCA", a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and change in net assets, and cash flows for the years 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 audits. We conducted our audits 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 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.

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INDEPENDENT AUDITOR'S REPORT

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Niagara County Society for the Prevention of Cruelty to Animals, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 11 are presented for purposes of additional analysis and are 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 auditing procedures generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 678,088	\$ 42,931
Accounts receivable	10,438	3,875
Prepaid expenses	<u>1,949</u>	<u>78</u>
Total current assets	690,475	46,884
INVESTMENTS	704,816	713,873
PROPERTY AND EQUIPMENT, net	<u>512,705</u>	<u>538,139</u>
	<u>\$ 1,907,996</u>	<u>\$ 1,298,896</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Long-term debt - current portion	\$ 6,210	\$ 6,210
Accounts payable	14,785	27,323
Accrued expenses	19,949	22,669
Deferred revenue	<u>2,970</u>	<u>2,970</u>
Total current liabilities	43,914	59,172
LONG-TERM DEBT - noncurrent portion	<u>517</u>	<u>6,726</u>
Total liabilities	<u>44,431</u>	<u>65,898</u>
NET ASSETS:		
Unrestricted net assets -		
Designated by the Board of Directors for future betterment	690,733	662,625
Undesignated	<u>1,086,041</u>	<u>542,449</u>
Total unrestricted net assets	1,776,774	1,205,074
Temporarily restricted net assets	<u>86,791</u>	<u>27,924</u>
Total net assets	<u>1,863,565</u>	<u>1,232,998</u>
	<u>\$ 1,907,996</u>	<u>\$ 1,298,896</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT:			
Animal related services	\$ 165,025	\$ -	\$ 165,025
Municipal contract income	324,077	-	324,077
Contributions	404,638	66,222	470,860
Bequests	653,883	-	653,883
Other	6,571	-	6,571
Net assets released from restrictions	<u>8,000</u>	<u>(8,000)</u>	<u>-</u>
Total operating revenue and support	1,562,194	58,222	1,620,416
OPERATING EXPENSES:			
Animal related services	838,422	-	838,422
Management and general	85,592	-	85,592
Fundraising	<u>105,058</u>	<u>-</u>	<u>105,058</u>
Total operating expenses	<u>1,029,072</u>	<u>-</u>	<u>1,029,072</u>
Changes in net assets from operating activities	533,122	58,222	591,344
OTHER INCOME/(EXPENSE):			
Interest and dividends	16,153	341	16,494
Net investment appreciation	29,468	450	29,918
Investment advisory fees	<u>(7,043)</u>	<u>(146)</u>	<u>(7,189)</u>
Total other income/(expenses), net	<u>38,578</u>	<u>645</u>	<u>39,223</u>
CHANGE IN NET ASSETS	571,700	58,867	630,567
NET ASSETS, beginning of year	<u>1,205,074</u>	<u>27,924</u>	<u>1,232,998</u>
NET ASSETS, end of year	<u>\$ 1,776,774</u>	<u>\$ 86,791</u>	<u>\$ 1,863,565</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE:			
Animal related services and contributions	\$ 144,383	\$ -	\$ 144,383
Municipal contract income	360,214	-	360,214
Contributions	318,469	14,488	332,957
Bequests	38,598	-	38,598
Other	8,042	-	8,042
Net assets released from restrictions	<u>3,511</u>	<u>(3,511)</u>	<u>-</u>
Total support and revenues	873,217	10,977	884,194
OPERATING EXPENSES:			
Animal related services	870,214	-	870,214
Management and general	77,959	-	77,959
Fundraising	<u>102,019</u>	<u>-</u>	<u>102,019</u>
Total operating expenses	<u>1,050,192</u>	<u>-</u>	<u>1,050,192</u>
Changes in net assets from operating activities	(176,975)	10,977	(165,998)
OTHER INCOME/(EXPENSE):			
Interest and dividends	19,493	365	19,858
Net investment depreciation	(49,682)	(629)	(50,311)
Investment advisory fees	(7,552)	(70)	(7,622)
Gain on sale of property and equipment	<u>1,147</u>	<u>-</u>	<u>1,147</u>
Total other income/(expenses), net	<u>(36,594)</u>	<u>(334)</u>	<u>(36,928)</u>
CHANGE IN NET ASSETS	(213,569)	10,643	(202,926)
NET ASSETS, beginning of year	<u>1,418,643</u>	<u>17,281</u>	<u>1,435,924</u>
NET ASSETS, end of year	<u>\$ 1,205,074</u>	<u>\$ 27,924</u>	<u>\$ 1,232,998</u>

The accompanying notes are an integral part of these statements.

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 630,567	\$ (202,926)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	43,731	45,144
Reinvested interest and dividend income	(16,491)	(19,855)
Investment expenses charged to portfolio	7,189	7,622
Gain on sale of property and equipment	-	(1,147)
Net realized and unrealized (gains)/losses on investments	(29,918)	50,311
Changes in:		
Accounts receivable	(6,563)	4,308
Prepaid expenses	(1,871)	-
Accounts payable	(12,538)	9,192
Accrued expenses	(2,720)	(18,378)
Net cash flows from operating activities	<u>611,386</u>	<u>(125,729)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(18,297)	-
Proceeds from the sale of property and equipment	-	1,147
Proceeds from sale of investment	<u>48,277</u>	<u>40,000</u>
Net cash flows from investing activities	29,980	41,147
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of equipment loan	<u>(6,209)</u>	<u>(6,210)</u>
Net cash flows from financing activities	<u>(6,209)</u>	<u>(6,210)</u>
CHANGE IN CASH	635,157	(90,792)
CASH - beginning of year	<u>42,931</u>	<u>133,723</u>
CASH - end of year	<u>\$ 678,088</u>	<u>\$ 42,931</u>

The accompanying notes are an integral part of these statements.

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

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Classification of net assets and revenues, expenses, gains and losses is based on the existence or absence of donor-imposed restrictions.

The SPCA accounts for contributions in accordance with GAAP, which require an organization to recognize contributions, including unconditional promises to give, as revenue when received. GAAP also requires not-for-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. Revenues that are restricted by donors are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

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 its cash.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016 and 2015.

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 change in net assets.

GAAP establishes 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.

Marketable securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain marketable securities, it is at least reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Property and Equipment

Property and equipment are stated at cost or fair market value at the date of donation or purchase. The cost of property and equipment purchased in excess of \$1,500 is capitalized. 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 76% and 74% of the SPCA's municipal contract revenues were derived from two municipalities for the years ended December 31, 2016 and 2015, respectively.

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 and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax Status

The SPCA is a 501(c)(3) organization exempt from Federal and New York State income taxes under Section 501(a) of the Internal Revenue Code. The SPCA has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Donations

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 the time does not meet the criteria for recognition under GAAP.

Advertising

Advertising costs are expensed in the period in which the advertising takes place. Advertising expense for the years ended December 31, 2016 and 2015 was \$520 and \$295, 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.

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 2016 and 2015 are reflected in other changes in unrestricted or temporarily restricted net assets in the accompanying statements of activities and change in net assets. Realized gains and losses from the sale of securities are recognized on the trade date using the specific identification method.

The fair value of the investments owned by the SPCA consisted of the following at December 31:

	Level 1	
	<u>2016</u>	<u>2015</u>
Cash equivalents	\$ 3,962	\$ 1,456
Common stocks	271,336	217,379
Mutual funds	<u>429,518</u>	<u>495,038</u>
	<u>\$ 704,816</u>	<u>\$ 713,873</u>

3. INVESTMENTS (Continued)

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

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized gains	\$ 29,468	\$ 450	\$ 29,918
Interest and dividend income	16,153	341	16,494
Investment advisory fees	<u>(7,043)</u>	<u>(146)</u>	<u>(7,189)</u>
Total investment income	<u>\$ 38,578</u>	<u>\$ 645</u>	<u>\$ 39,223</u>

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized gains	\$ (49,682)	\$ (629)	\$ (50,311)
Interest and dividend income	19,493	365	19,858
Investment advisory fees	<u>(7,552)</u>	<u>(70)</u>	<u>(7,622)</u>
Total investment income	<u>\$ (37,741)</u>	<u>\$ (334)</u>	<u>\$ (38,075)</u>

GAAP requires 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, 2016 and 2015.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 90,613	\$ 90,613
Building and improvements	1,034,458	1,034,458
Pet cemetery	194,433	194,433
Equipment and vehicles	<u>277,425</u>	<u>259,128</u>
	1,596,929	1,578,632
Less: Accumulated depreciation	<u>(1,084,224)</u>	<u>(1,040,493)</u>
	<u>\$ 512,705</u>	<u>\$ 538,139</u>

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to \$43,731 and \$45,144, respectively.

5. LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Five-year non-interest bearing equipment loan payable in monthly installments of \$517 and a maturity date of January 2018. The loan is secured by the equipment.	\$ 6,727	\$ 12,936
Less: Current portion	<u>(6,210)</u>	<u>(6,210)</u>
	<u>\$ 517</u>	<u>\$ 6,726</u>

The aggregate future maturities of long-term debt are as follows:

2017	\$ 6,210
2018	<u>517</u>
	<u>\$ 6,727</u>

6. OPERATING LEASE

The SPCA leases a surgical trailer from the Erie County SPCA. The lease is a month-to-month operating lease with no expiration date. The monthly lease payment is \$300. Lease expense for the years ended December 31, 2016 and 2015 amounted to \$3,600.

7. RETIREMENT CONTRIBUTION PLAN

The SPCA provides an employee compensation deferral plan covering all eligible employees who have reached 21 years of age and completed six months of employment (1,000 hours). Under the plan, each participant may contribute a percentage of defined compensation subject to plan limitations. The SPCA's matching contribution is equal to 50% of the participant's contribution up to a maximum of 3% of defined compensation. The SPCA may also make a discretionary additional contribution of 1% of the employee's annual compensation at the end of the year. The SPCA's contributions to the plan were \$1,390 and \$1,271 for the years ended December 31, 2016 and 2015, respectively.

8. BOARD DESIGNATED NET ASSETS

The Board of Directors has designated that part of 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 made at the discretion of the Board of Directors.

8. BOARD DESIGNATED NET ASSETS (Continued)

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

	<u>2016</u>	<u>2015</u>
Net assets, beginning of year	\$ 662,625	\$ 697,468
Interest and dividend income	15,838	17,703
Investment advisory fees	(6,984)	(7,463)
Net realized and unrealized appreciation	29,596	(45,083)
Releases of Board designated net assets	<u>(10,342)</u>	<u>-</u>
Net assets, end of year	<u>\$ 690,733</u>	<u>\$ 662,625</u>

9. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets represent donor restricted contributions and the related accumulated investment income/(loss), which are to be used by the SPCA for its spay/neuter, care and support for animals recovered from a hoarding case, dog tags programs, and for the perpetual care of the SPCA's pet cemetery.

10. 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, 2016 and 2015 was \$5,735 and \$3,598, respectively.

11. SUBSEQUENT EVENTS

The SPCA evaluated all events subsequent to December 31, 2016 through October 18, 2017, the date the financial statements were available to be issued.

NIAGARA COUNTY SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Schedule I

	2016					2015				
	Supporting Services				Total Functional Expenses	Supporting Services				Total Functional Expenses
	Animal Related Services	Management and General	Fundraising	Total Supporting Services		Animal Related Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 465,285	\$ 41,062	\$ 51,406	\$ 92,468	\$ 557,753	\$ 469,168	\$ 33,000	\$ 55,051	\$ 88,051	\$ 557,219
Employee benefits and payroll taxes	97,120	8,828	11,052	19,880	117,000	101,031	7,095	11,836	18,931	119,962
Total salaries and related expenses	562,405	49,890	62,458	112,348	674,753	570,199	40,095	66,887	106,982	677,181
Animal related expenses	142,473	-	-	-	142,473	168,186	-	-	-	168,186
Depreciation	43,731	-	-	-	43,731	45,144	-	-	-	45,144
Supplies	16,301	766	13,563	14,329	30,630	11,224	716	21,696	22,412	33,636
Direct mail expenses	-	-	28,964	28,964	28,964	-	-	13,256	13,256	13,256
Professional fees	-	24,030	-	24,030	24,030	-	26,927	-	26,927	26,927
Occupancy	19,534	693	-	693	20,227	19,589	482	-	482	20,071
Insurance	14,756	3,006	-	3,006	17,762	12,079	2,554	-	2,554	14,633
Maintenance	14,835	-	-	-	14,835	17,968	-	-	-	17,968
Vehicle related expenses	14,066	-	-	-	14,066	17,078	-	-	-	17,078
Telephone	6,752	934	-	934	7,686	5,938	146	-	146	6,084
Bank fees	-	3,851	-	3,851	3,851	-	4,006	-	4,006	4,006
Conferences and other meetings	-	881	-	881	881	-	2,113	-	2,113	2,113
Advertising and promotion	-	520	-	520	520	-	295	-	295	295
Licenses	-	268	-	268	268	-	361	-	361	361
Uniforms	-	-	-	-	-	873	-	-	-	873
Other	3,569	753	73	826	4,395	1,936	264	180	444	2,380
	<u>\$ 838,422</u>	<u>\$ 85,592</u>	<u>\$ 105,058</u>	<u>\$ 190,650</u>	<u>\$ 1,029,072</u>	<u>\$ 870,214</u>	<u>\$ 77,959</u>	<u>\$ 102,019</u>	<u>\$ 179,978</u>	<u>\$ 1,050,192</u>

The accompanying notes are an integral part of this schedule.