



**ANIMAL WELFARE SOCIETY, INC.  
AND AFFILIATE**

**AUDIT OF FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**THREE MONTHS ENDED JUNE 30, 2016**

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**AUDIT OF FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**THREE MONTHS ENDED JUNE 30, 2016**

	<u>PAGE</u>
<b><u>FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1
Combined Statement of Financial Position	2
Combined Statement of Activities	3
Combined Statement of Cash Flows	4 - 5
Notes to Financial Statements	6 - 15
<b><u>ADDITIONAL INFORMATION</u></b>	
Independent Auditors' Report on Additional Information	16
Combining Statement of Financial Position	17
Combining Statement of Activities	18
Combined Schedule of Functional Expenses	19

INDEPENDENT AUDITORS' REPORT

**CUMMINGS  
LAMONT  
& McNAMEE, P.A.**

December 2, 2016

*"Trusted Advisors for  
over 50 years!"*

Boards of Directors  
Animal Welfare Society, Inc. and Affiliate  
Kennebunk, Maine

We have audited the accompanying combined financial statements of Animal Welfare Society, Inc. (a nonprofit organization) and Affiliate, which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities and cash flows for the three months then ended, and the related notes to the combined financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Welfare Society, Inc. and Affiliate as of June 30, 2016, and the changes in their net assets and their cash flows for the three months then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Animal Welfare Society, Inc. and Affiliate's March 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Cummings, Lamont & McNamee, P.A.*

**Certified Public Accountants  
Kennebunk, Maine**

CERTIFIED PUBLIC ACCOUNTANTS

305 Lafayette Center  
P.O. Box 328  
Kennebunk, Maine 04043-0328  
TEL 207 985-3339  
FAX 207 985-1339

One New Hampshire Avenue  
Suite 230  
Portsmouth, NH 03801  
TEL 603 430-6200  
FAX 603 430-6209

1 Hampton Road  
Suite 306  
Exeter, NH 03833  
TEL 603 772-3460  
FAX 603 772-7097

http://www.clmcpa.com  
e-mail: clm@clmcpa.com

Raymond L. Bald, CPA, CFE  
Cindy K. Edwards, MBA  
Wanda J. Ring, CPA  
Melanie Bunker, CPA  
Michelle A. Goldsmith, CPA

Member:  
American Institute of CPAs

Licensed in Maine, New Hampshire  
and Massachusetts

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**  
**COMBINED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2016**  
**WITH COMPARATIVE TOTALS FOR MARCH 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	March 31, 2016 Total (Memorandum Only)
<b>ASSETS</b>					
Cash	\$ 142,084	\$ 78,550	\$ -	\$ 220,634	\$ 325,838
Accounts receivable	10,210	-	-	10,210	16,271
Bequests receivable	-	-	31,001	31,001	-
Investments	3,355,165	267,565	1,174,989	4,797,719	4,567,132
Inventory	36,454	-	-	36,454	30,887
Prepaid expenses	14,178	-	-	14,178	15,070
Beneficial interest in charitable trusts	-	40,037	173,456	213,493	212,364
Property and equipment, net	1,661,867	-	-	1,661,867	1,615,374
Intangible assets, net	34,596	-	-	34,596	38,047
Other assets	1,700	-	-	1,700	1,950
<b>Total Assets</b>	<b><u>\$5,256,254</u></b>	<b><u>\$ 386,152</u></b>	<b><u>\$1,379,446</u></b>	<b><u>\$7,021,852</u></b>	<b><u>\$ 6,822,933</u></b>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 80,150	\$ -	\$ -	\$ 80,150	\$ 73,124
Accrued salaries	107,940	-	-	107,940	75,485
Deferred revenue	12,730	-	-	12,730	22,736
Capital lease obligation	12,470	-	-	12,470	13,244
Line of credit	180,000	-	-	180,000	-
<b>Total Liabilities</b>	<b><u>393,290</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>393,290</u></b>	<b><u>184,589</u></b>
<b>NET ASSETS</b>					
Unrestricted:					
Designated as funds					
functioning as endowment	2,546,805	-	-	2,546,805	2,526,547
Undesignated	2,316,159	-	-	2,316,159	2,538,057
Temporarily restricted	-	386,152	-	386,152	226,268
Permanently restricted	-	-	1,379,446	1,379,446	1,347,472
<b>Total Net Assets</b>	<b><u>4,862,964</u></b>	<b><u>386,152</u></b>	<b><u>1,379,446</u></b>	<b><u>6,628,562</u></b>	<b><u>6,638,344</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$5,256,254</u></b>	<b><u>\$ 386,152</u></b>	<b><u>\$1,379,446</u></b>	<b><u>\$7,021,852</u></b>	<b><u>\$ 6,822,933</u></b>

*See Notes to Financial Statements*

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**COMBINED STATEMENT OF ACTIVITIES**

**THREE MONTHS ENDED JUNE 30, 2016  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>March 31, 2016 Total (Memorandum Only)</u>
<b>OPERATING SUPPORT AND REVENUE</b>					
Donations and bequests	\$ 155,394	\$ 206,474	\$ 31,000	\$ 392,868	\$ 2,823,422
Municipal fees	48,520	-	-	48,520	194,867
Adoption fees	144,148	-	-	144,148	440,572
Miscellaneous fees and income	82,507	-	-	82,507	145,466
Fundraising and special events	11,028	-	-	11,028	114,889
Net assets released from restrictions	46,745	(46,745)	-	-	-
<b>Total Operating Support and Revenue</b>	<u>488,342</u>	<u>159,729</u>	<u>31,000</u>	<u>679,071</u>	<u>3,719,216</u>
<b>NON-OPERATING SUPPORT AND REVENUE</b>					
Interest and dividends	30,292	-	-	30,292	110,089
Gains (losses) on investments	26,849	-	-	26,849	(173,705)
Gains (losses) on charitable trusts	-	155	974	1,129	(18,547)
Gains (losses) on disposal of asset	-	-	-	-	(6,764)
<b>Total Non-Operating Support and Revenue</b>	<u>57,141</u>	<u>155</u>	<u>974</u>	<u>58,270</u>	<u>(88,926)</u>
<b>EXPENSES</b>					
Program service	609,774	-	-	609,774	2,242,341
Management and general	64,419	-	-	64,419	301,509
Fundraising and special events	72,930	-	-	72,930	249,674
<b>Total Expenses</b>	<u>747,123</u>	<u>-</u>	<u>-</u>	<u>747,123</u>	<u>2,793,524</u>
<b>CHANGE IN NET ASSETS</b>	<u>(201,640)</u>	<u>159,884</u>	<u>31,974</u>	<u>(9,782)</u>	<u>836,766</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>5,064,604</u>	<u>226,268</u>	<u>1,347,472</u>	<u>6,638,344</u>	<u>5,801,578</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$4,862,964</u>	<u>\$ 386,152</u>	<u>\$1,379,446</u>	<u>\$ 6,628,562</u>	<u>\$ 6,638,344</u>

*See Notes to Financial Statements*

ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE

COMBINED STATEMENT OF CASH FLOWS

THREE MONTHS ENDED JUNE 30, 2016  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2016

		March 31, 2016 (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (9,782)	\$ 836,766
Adjustments to reconcile change in net assets to net cash provided by (used in) in operating activities:		
Depreciation and amortization	29,726	101,786
(Gains) losses on investments	(26,850)	173,704
Donated investments	-	(69,925)
Donated fixed assets	(4,956)	-
(Gains) losses on charitable trusts	(1,129)	18,547
(Gains) losses on disposal of fixed asset	-	6,764
Changes in operating assets and liabilities:		
Accounts receivable	6,061	(14,950)
Bequests receivable	(31,001)	-
Inventory	(5,567)	3,877
Prepaid expenses	892	(2,255)
Other assets	250	(1,950)
Accounts payable and accrued expenses	7,026	19,686
Accrued salaries	32,455	23,488
Deferred revenue	(10,006)	22,736
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(12,881)	1,118,273
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	130,079	1,270,701
Purchases of investments	(333,816)	(1,659,269)
Cash paid for purchase of property and equipment	(67,812)	(604,755)
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	(271,549)	(993,323)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(774)	(2,799)
Net proceeds (repayments) on line of credit	180,000	(40,256)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	179,226	(43,055)
NET INCREASE (DECREASE) IN CASH	(105,204)	81,895
CASH, BEGINNING OF YEAR	<hr/>	<hr/>
	325,838	243,943
CASH, END OF YEAR	<hr/> <hr/>	<hr/> <hr/>
	\$ 220,634	\$ 325,838

*See Notes to Financial Statements*

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**  
**COMBINED STATEMENT OF CASH FLOWS**  
**THREE MONTHS ENDED JUNE 30, 2016**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2016**

**SUPPLEMENTAL CASH FLOW DISCLOSURES:**

During the three months ended June 30, 2016 the Society paid \$720 in interest. There were no cash payments for income taxes for the three months ended June 30, 2016.

**SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

There were no noncash investing or financing activities during the three months ended June 30, 2016.

*See Notes to Financial Statements*

## ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE

### NOTES TO FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2016

#### Note 1 – Summary of Significant Accounting Policies

Nature of Activities - Animal Welfare Society, Inc. ("Society") is a not-for-profit Maine corporation organized 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.

The Cleo Fund (the "Affiliate") is a not-for-profit Maine corporation existing to provide subsidies to low-income individuals to cover the cost of animal spay and neuter surgeries. The Affiliate's principal source of revenue is donations. Effective January 1, 2013, operation and control of The Cleo Fund was assumed by the Animal Welfare Society, Inc. through the appointment of three members of the Board of Directors of the Animal Welfare Society to the three member Board of Directors of The Cleo Fund. Management of the Society believes the combined financial statements provide a more complete presentation of the financial position and results of operations of the Society.

Basis of Accounting - The combined financial statements include the accounts of Animal Welfare Society, Inc. and The Cleo Fund which are affiliated through common control. Significant intercompany transactions and balances have been eliminated in the combination. The combined financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other accruals, if applicable.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, *Financial Statements of Not-for-Profit Organizations*. Under this standard, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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. Investment income, including net realized and unrealized gains and losses, contributions of intangible assets, and contributions of permanently restricted net assets are recognized as non-operating support and revenue.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by activities of the Society and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of the assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Cash - For purposes of the Statement of Cash Flows, the Society and Affiliate consider all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Donated Assets - Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated Services - 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. Additionally, any contributed services received from personnel of an affiliate are reflected in the financial statements.

Accounting Estimates and Assumptions - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support revenues and expenses. Actual results could differ from those estimates.



ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Expense Allocation - The costs of providing various programs and other activities 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.

Income Tax Status - Both the Society and the Affiliate are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, both entities qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(2).

The federal returns of organizations exempt from income tax of the Society and Affiliate are subject to examination generally for three years after they are filed.

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

Investments - The Society and Affiliate carry investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Promises to Give - Unconditional promises to give are recorded as received. Unconditional promises to give due in subsequent years 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 promises to give are recognized when the conditions on which they depend are substantially met.

Bequests Receivable - The Society and Affiliate are beneficiaries under various wills and trust agreements, some of which the total realizable amount is not presently determinable. Such amounts are recorded when a will or trust is declared valid by a probate court and the proceeds are measurable. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in bequests receivable. There is no allowance for uncollectible accounts at June 30, 2016.

Property and Equipment - Purchased land, buildings, furnishings and equipment are carried at cost. Contributed assets are carried at their fair market value at the time of the gift. Major additions with a per unit cost greater than \$1,000 are included in the property accounts while maintenance and repairs which do not improve or extend the life of the assets are expensed currently. Depreciation expense was \$26,275 for the three months ended June 30, 2016. Depreciation is computed using the straight-line and declining balance methods of depreciation over the assets' estimated lives as follows:

<u>Assets</u>	<u>Life in Years</u>
Buildings	15-30
Land improvements	10
Equipment	5-10

Recognition of Donor-Restricted Contributions - Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk for Cash Held in Banks and Brokerage Accounts - The Society and Affiliate places its demand deposits with several banks and brokerage accounts and does not limit the daily cash balances to the federally insured limits. From time to time during the three months ended June 30, 2016 the Company's bank and brokerage account balances may have exceeded the federally insured limits. Management has evaluated this risk and considers it to be a normal business risk.

Note 2 – Change in Fiscal Year

Effective the fiscal year beginning July 1, 2016, the Society will change from a fiscal year end of March 31 to June 30. A three-month fiscal transition period from April 1, 2016 through June 30, 2016 precedes the start of the new fiscal year cycle.

Note 3 – Cash

Temporarily restricted cash is available for the following purposes as of June 30, 2016:

	<u>Temporarily Restricted</u>
Restricted to courtyard project	\$ 9,569
Restricted to Animal Resource Center	10,000
Restricted to other uses	<u>58,981</u>
Total	\$ <u>78,550</u>

Note 4 – Bequests Receivable

The Society and Affiliate are beneficiaries under various wills and trust agreements, some of which the total realizable amount is not presently determinable. Such amounts are recorded when a will or trust is declared valid by a probate court and the proceeds are measurable. At June 30, 2016, \$31,001 of bequests met this criteria for recognition and are included in bequests receivable in the combined statement of financial position.

Note 5 – Investments

The Society and Affiliate have elected to report their investments at fair value. The Statement of Financial Accounting Standards, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, specifies that investments in equity securities with readily determinable fair values should be reported at their fair value.

Investments as of June 30, 2016, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Corporate stocks and bonds	\$ 2,691,410	\$ 3,202,969
Mutual funds	1,230,303	1,317,165
US Government obligations	<u>271,961</u>	<u>277,585</u>
Total	\$ <u>4,193,674</u>	\$ <u>4,797,719</u>

ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2016

Note 5 – Investments (continued)

Temporarily restricted investments are available for the following purposes as of June 30, 2016:

	<u>Temporarily Restricted</u>
Restricted to clinic renovation	\$ 178,072
Restricted to spay/neuter programs	84,047
Restricted to other uses	<u>5,446</u>
Total	\$ <u>267,565</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the three months ended June 30, 2016:

	<u>Unrestricted</u>
Interest and dividends	\$ 30,284
Gains (losses) on investments	<u>26,849</u>
Total investment return	\$ <u>57,133</u>

Note 6 – Fair Values of Assets

Effective April 1, 2008, the Society and Affiliate adopted Statement of Financial Accounting Standards, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP. This standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The standard also established a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

- A) Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other resources;
- B) Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**NOTES TO FINANCIAL STATEMENTS**

**THREE MONTHS ENDED JUNE 30, 2016**

**Note 6 – Fair Values of Assets (continued)**

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

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2016</u>				
Investment in equities	\$ 2,660,461	\$ 2,660,461	\$ -	\$ -
Investment in mutual funds	1,317,165	1,317,165	-	-
Investment in corporate bonds	542,508	542,508	-	-
Investment in government bonds	277,585	277,585	-	-
Beneficial interest in charitable trusts	<u>213,493</u>	<u>173,456</u>	<u>40,037</u>	<u>-</u>
Total Assets	\$ <u>5,011,212</u>	\$ <u>4,971,175</u>	\$ <u>40,037</u>	\$ <u>-</u>

The fair value of a split interest agreement, classified as beneficial interest in charitable trusts within the combined 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 15.

**Note 7 – Property and Equipment**

Property and equipment consists of the following at June 30, 2016:

Buildings	\$ 1,653,910
Land	627,394
Land improvements	303,304
Equipment	276,125
Automobile	<u>83,803</u>
Less accumulated depreciation	<u>1,282,669</u>
Total property and equipment	\$ <u>1,661,867</u>

**Note 8 – Intangible Assets**

Intangible assets consist of the following at June 30, 2016:

Website	69,013
Less accumulated amortization	<u>34,417</u>
Total intangible assets	\$ <u>34,596</u>

ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2016

Note 9 – Leases

The Society is the lessee of phone equipment under a capital lease expiring in 2021. The asset and liability under capital leases is recorded at the present value of the minimum lease payments. The asset is amortized over the estimated productive life. Amortization of assets under capital leases is included in depreciation expense for the three months ended June 30, 2016

Following is a summary of property held under capital leases:

Phone equipment	\$	16,043
Accumulated amortization		<u>(3,573)</u>
	\$	<u>12,470</u>

Minimum future lease payments under capital leases as of June 30, 2016, were as follows:

<u>Three months ending June 30,</u>	<u>Amount</u>
2017	\$ 3,411
2018	3,411
2019	3,411
2019	<u>2,843</u>
Net minimum lease payments	13,076
Amount representing interest	<u>(606)</u>
Present value of net minimum lease payments	\$ <u>12,470</u>

The Society leases an office copier under a five-year operating lease expiring in in 2020. Future minimum rental payments due under the lease are as follows:

<u>Three months ending June 30,</u>	<u>Amount</u>
2017	\$ 2,928
2018	2,928
2019	2,928
2020	<u>2,196</u>
	\$ <u>10,980</u>

Lease payments made during the three months ended June 30, 2016 were \$732.

Note 10 – Line of Credit

In December 2010, the Society obtained a \$200,000 revolving line of credit from Kennebunk Savings Bank to help finance its short-term cash flow needs. This line is collateralized by the Society's real property located in York County and any rents on the property. Interest is payable monthly on outstanding balances at an interest rate equal to the annual U.S. Prime Rate as published in the "Wall Street Journal." At June 30, 2016, the line's effective rate of interest was 3.50%. As of June 30, 2016 \$180,000 was outstanding under the line of credit. The line of credit matures on May 15, 2019. Interest expense for the three months ended June 30, 2016 was \$642.

ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2016

Note 11 – Board-Designated Net Assets

As discussed in Note 14, as of June 30, 2016, the Board of Directors of the Society had designated \$2,546,805 of unrestricted net assets as a general endowment fund to support the mission of the Society. Since this amount resulted from an internal designation and is not donor-restricted, the designation is classified and reported as unrestricted net assets.

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Restricted to courtyard project	\$	9,569
Restricted to Animal Resource Center		10,000
Time restriction - beneficial interest in charitable trust		40,036
Restricted to other uses		64,428
Restricted to spay/neuter programs		84,047
Restricted to clinic renovation		<u>178,072</u>
Total	\$	<u>386,152</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose restrictions accomplished:

Restricted to spay/neuter programs	\$	10,193
Restricted to other uses		14,624
Restricted for office renovation		<u>21,928</u>
Total restrictions released	\$	<u>46,745</u>

Note 13 – Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

Donor-designated endowment funds, Note 14	\$	1,174,989
Beneficial interest in a charitable foundation, Note 15		173,456
Bequest receivable, donor designated for endowment		<u>31,001</u>
Total	\$	<u>1,379,446</u>

Note 14 – Endowment Funds

In January 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (“the Staff Position”). The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also requires additional disclosures about an organization’s endowment fund (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**NOTES TO FINANCIAL STATEMENTS**

**THREE MONTHS ENDED JUNE 30, 2016**

**Note 14 – Endowment Funds (continued)**

The State of Maine enacted UPMIFA in 2009, the provisions of which apply to endowment funds existing on or established after that date. The Society has adopted the Staff Position for the year ended March 31, 2010. The Society's endowment investing policy's objective is to grow the fund over time to support the purposes as defined above. The fund will meet this objective by investing endowment funds in fixed income and equity investments. The Society spends the earnings of the above funds for purposes as deemed necessary by the Society.

As of June 30, 2016, the Society had endowment funds totaling \$3,721,794 consisting of both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

As of June 30, 2016, the Board of Directors of the Society had designated \$2,546,805 of unrestricted net assets as a general endowment fund to support the mission of the Society. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Society's investment spending policy consists of distributing monthly, the previous month's net investment income including interest, dividends and capital gain distributions from investments. The distributions do not account for any change in the fair value of the endowment fund. Accordingly, 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 attempt to provide a predictable stream of funding from its endowment funds while also maintaining the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment Net Asset Composition by fund as of June 30, 2016 is as follows:

	Unrestricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ -	\$ 1,174,989	\$ 1,174,989
Board-designated endowment funds	<u>2,546,805</u>	-	<u>2,546,805</u>
<b>Total</b>	<b>\$ <u>2,546,805</u></b>	<b>\$ <u>1,174,989</u></b>	<b>\$ <u>3,721,794</u></b>

Changes in endowment net assets as of June 30, 2016 are as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 2,526,547	\$ 1,174,989	\$ 3,701,536
Investment income (loss) net of fees	(10,200)	-	(10,200)
Distributions	(6,669)	-	(6,669)
Unrealized gains on endowment	<u>37,127</u>	-	<u>37,127</u>
<b>Total</b>	<b>\$ <u>2,546,805</u></b>	<b>\$ <u>1,174,989</u></b>	<b>\$ <u>3,721,794</u></b>

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**NOTES TO FINANCIAL STATEMENTS**

**THREE MONTHS ENDED JUNE 30, 2016**

**Note 15 – Charitable Trusts**

The Society is a beneficiary of the following charitable trusts at June 30, 2016:

**Temporarily restricted:**

The Society is a remainder beneficiary of the Conderman charitable remainder trust held and administered by outside trustees. Under the terms of the trust one 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, 17% percent of the remaining principal is to be distributed to the Society. The expected future cash flow of \$40,037 represents the Society's share of the fair market value of the trust principal at June 30, 2016. Changes in the value of the trust have been reported in the statement of activities as increases in temporarily restricted net assets.

The Society's interest in the Conderman charitable remainder trust has been recognized at the present value of the expected future cash flow payments discounted at a rate of 2.6% and an 8.3 year remaining life expectancy of the income beneficiary. The actual rate of return and life of the income beneficiary could differ from these amounts.

**Permanently restricted:**

The Society is a beneficiary of 8.33% of The Clark Foundation charitable trust held and administered by outside trustees. The Society will receive annual distributions based upon the income of the trust in perpetuity. The trust owned assets for the benefit of the Society with a market value of \$173,456 as of June 30, 2016. Distributions from the trust totaled \$1,634 during three months ended June 30, 2016.

**Note 16 – Donated Assets and Services**

Donated services included in the financial statements consist services from personnel of an affiliate with a value of \$10,701 for the three months ended June 30, 2016. In addition, a substantial number of volunteers have donated significant amounts of their time in the Society's and Affiliate's operations, program services and fundraising activities which is not recognized in the financial statements because it does not meet the criteria described in Note 1. The Society received in-kind donations of supplies and other assets valued at \$15,632 during the three months ended June 30, 2016 which are included in donations and bequests in the Statement of Activities.

**Note 17 – Contributed Services Received from Personnel of an Affiliate**

Animal Welfare Society, Inc., provided administrative services to The Cleo Fund without charge during the three months ended June 30, 2016. The Cleo Fund recognized revenue and related expense of \$10,701 for contributed services received from Animal Welfare Society, Inc. at the cost recognized by Animal Welfare Society, Inc. for the personnel providing those services.

**Note 18 – Retirement Plan**

The Society has established a defined contribution plan covering all employees with at least \$5,000 in annual compensation who agree to make contributions to the plan. The Society matches participants' contributions to the plan up to 3% of the individual participant's compensation. Total expense for the three months ended June 30, 2016, was \$7,677.



**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**NOTES TO FINANCIAL STATEMENTS**

**THREE MONTHS ENDED JUNE 30, 2016**

**Note 19 – Related Party Transactions**

As described in Note 17, during the three months ended June 30, 2016 The Cleo Fund recognized revenue and related expense of \$10,701 for contributed services received from personnel of its affiliate, Animal Welfare Society, Inc.

During the three months ended June 30, 2016 Animal Welfare Society, Inc. paid a variety of expenses on behalf The Cleo Fund and also borrowed money from The Cleo Fund, which were subsequently reimbursed. At June 30, 2016 \$14,760 was payable by Animal Welfare Society, Inc. to The Cleo Fund.

**Note 20 – Subsequent Events**

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 parking lot to accommodate the expansion. As of December 2, 2016, \$219,412 has been paid under these agreements. The cost of the construction is anticipated to total approximately \$2,300,000 with an anticipated completion date of June 1, 2017.

Effective July 1, 2016, Animal Welfare Society, Inc. acquired control of The Cleo Fund. The Board of Directors of Animal Welfare Society, Inc. immediately prior to the effective date became the Board of Directors of the combined agency as of July 1, 2016. The merger is intended to allow for both agencies to increase the number and variety of services offered, while working to reduce costs based on the combined efficiencies of such a merger.

In November 2016 the Society sold a parcel of land for \$100,000.

Subsequent events have been evaluated through December 2, 2016, which is the date the financial statements were available to be issued. There were no other material events at December 2, 2016 that would require disclosure in the financial statements.

INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

December 2, 2016

Boards of Directors  
Animal Welfare Society, Inc. and Affiliate  
Kennebunk, Maine

We have audited the combined financial statements of Animal Welfare Society, Inc. and Affiliate as of and for the three months ended June 30, 2016, and have issued our report thereon dated December 2, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of financial position and activities as well as the combined schedule of functional expenses on pages 17 through 19 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 standards 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.

*Cummings, Lamont & Stamer, P.A.*

**Certified Public Accountants**  
**Kennebunk, Maine**

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**COMBINING STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2016**

**WITH COMPARATIVE TOTALS FOR MARCH 31, 2016**

	<u>Animal Welfare Society, Inc.</u>	<u>The Cleo Fund</u>	<u>Combining/ Eliminating Entries</u>	<u>Combined</u>	<u>March 31, 2016 Total (Memorandum Only)</u>
<b>ASSETS</b>					
Cash	\$ 199,282	\$ 21,352	\$ -	\$ 220,634	\$ 325,838
Accounts receivable	10,210	-	-	10,210	16,271
Bequests receivable	-	31,001	-	31,001	-
Investments	3,300,775	1,496,944	-	4,797,719	4,567,132
Inventory	36,454	-	-	36,454	30,887
Prepaid expenses	14,178	-	-	14,178	15,070
Beneficial interest in charitable trusts	213,493	-	-	213,493	212,364
Property and equipment, net	1,643,229	18,638	-	1,661,867	1,615,374
Intangible assets, net	34,596	-	-	34,596	38,047
Other assets	1,700	14,760	(14,760)	1,700	1,950
<b>Total Assets</b>	<u><u>\$5,453,917</u></u>	<u><u>\$1,582,695</u></u>	<u><u>\$ (14,760)</u></u>	<u><u>\$7,021,852</u></u>	<u><u>\$ 6,822,933</u></u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 60,659	\$ 19,491	\$ -	\$ 80,150	\$ 73,124
Accrued salaries	107,940	-	-	107,940	75,485
Deferred revenue	12,730	-	-	12,730	22,736
Capital lease obligation	12,470	-	-	12,470	13,244
Line of credit	180,000	-	-	180,000	-
Other liabilities	14,760	-	(14,760)	-	-
<b>Total Liabilities</b>	<u><u>388,559</u></u>	<u><u>19,491</u></u>	<u><u>(14,760)</u></u>	<u><u>393,290</u></u>	<u><u>184,589</u></u>
<b>NET ASSETS</b>					
Unrestricted:					
Designated as funds					
functioning as endowment	2,546,805	-	-	2,546,805	2,526,547
Undesignated	1,823,450	492,709	-	2,316,159	2,538,057
Temporarily restricted	296,658	89,494	-	386,152	226,268
Permanently restricted	398,445	981,001	-	1,379,446	1,347,472
<b>Total Net Assets</b>	<u><u>5,065,358</u></u>	<u><u>1,563,204</u></u>	<u><u>-</u></u>	<u><u>6,628,562</u></u>	<u><u>6,638,344</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$5,453,917</u></u>	<u><u>\$1,582,695</u></u>	<u><u>\$ (14,760)</u></u>	<u><u>\$7,021,852</u></u>	<u><u>\$ 6,822,933</u></u>

*See Independent Auditors' Report on Additional Information on Page 16*

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**COMBINING STATEMENT OF ACTIVITIES**

**THREE MONTHS ENDED JUNE 30, 2016  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Animal Welfare Society, Inc.</u>	<u>The Cleo Fund</u>	<u>Combining/ Eliminating Entries</u>	<u>Combined</u>	<u>March 31, 2016 Total (Memorandum Only)</u>
<b>OPERATING SUPPORT AND REVENUE</b>					
Donations and bequests	\$ 351,165	\$ 41,703	\$ -	\$ 392,868	\$ 2,823,422
Municipal fees	48,520	-	-	48,520	194,867
Adoption fees	144,148	-	-	144,148	440,572
Miscellaneous fees and income	80,679	1,828	-	82,507	145,466
Fundraising and special events	11,028	-	-	11,028	114,889
<b>Total Operating Support and Revenue</b>	<u>635,540</u>	<u>43,531</u>	<u>-</u>	<u>679,071</u>	<u>3,719,216</u>
<b>NON-OPERATING SUPPORT AND REVENUE</b>					
Interest and dividends	20,826	9,466	-	30,292	110,089
Gains (losses) on investments	15,948	10,901	-	26,849	(173,704)
Gains (losses) on charitable trusts	1,129	-	-	1,129	(18,547)
Gains (losses) on disposal of asset	-	-	-	-	(6,764)
<b>Total Non-Operating Support and Revenue</b>	<u>37,903</u>	<u>20,367</u>	<u>-</u>	<u>58,270</u>	<u>(88,926)</u>
<b>EXPENSES</b>					
Program service	531,616	78,158	-	609,774	2,242,341
Management and general	55,583	8,836	-	64,419	301,509
Fundraising and special events	70,683	2,247	-	72,930	249,674
<b>Total Expenses</b>	<u>657,882</u>	<u>89,241</u>	<u>-</u>	<u>747,123</u>	<u>2,793,524</u>
<b>CHANGE IN NET ASSETS</b>	<u>15,561</u>	<u>(25,343)</u>	<u>-</u>	<u>(9,782)</u>	<u>836,766</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>5,049,797</u>	<u>1,588,547</u>	<u>-</u>	<u>6,638,344</u>	<u>5,801,578</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$5,065,358</u>	<u>\$1,563,204</u>	<u>\$ -</u>	<u>\$ 6,628,562</u>	<u>\$ 6,638,344</u>

*See Independent Auditors' Report on Additional Information on Page 16*

**ANIMAL WELFARE SOCIETY, INC. AND AFFILIATE**

**COMBINED SCHEDULE OF FUNCTIONAL EXPENSES**

**THREE MONTHS ENDED JUNE 30, 2016  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2016**

	Program Service	Management and General	Fundraising and Special Events	Total	March 31, 2016 Total (Memorandum Only)
Payroll and benefits	\$ 358,692	\$ 48,190	\$ 53,848	\$ 460,730	\$ 1,626,172
Shelter operations	92,369	345	3,882	96,596	409,580
Animal transport	32,440	-	-	32,440	58,415
Depreciation and amortization	26,803	1,757	1,166	29,726	101,786
Veterinary supplies	28,661	-	-	28,661	69,295
Veterinary fees	22,664	-	-	22,664	157,819
Repairs and maintenance	12,347	-	-	12,347	52,349
Occupancy and telephone	10,493	594	475	11,562	51,203
Printing and publications	2,844	-	8,369	11,213	39,336
Bank and Investment fees	1,378	7,995	447	9,820	45,130
Staff development	6,364	1,052	65	7,481	13,249
Office supplies and postage	2,313	1,312	3,538	7,163	29,298
Merchandise for resale	4,099	-	-	4,099	24,998
Miscellaneous	1,885	1,677	197	3,759	30,880
Insurance	2,595	313	219	3,127	27,044
Automobile	2,642	-	-	2,642	8,884
Professional fees	487	196	519	1,202	35,378
Interest	-	720	-	720	647
Fundraising and special events	430	-	205	635	1,372
Computer and internet	268	268	-	536	10,689
<b>Total Expenses</b>	<b>\$ 609,774</b>	<b>\$ 64,419</b>	<b>\$ 72,930</b>	<b>\$ 747,123</b>	<b>\$ 2,793,524</b>

*See Independent Auditors' Report on Additional Information on Page 16*