

# ANIMAL REFUGE LEAGUE OF GREATER PORTLAND

**Financial Statements  
for the years ended December 31, 2018 and 2017**

(See Independent Auditor's Report)

# McLeod | Ascanio

Certified Public Accountants

Scott A. McLeod  
Managing Principal

James Ascanio  
Managing Principal

Sally Swanson  
Principal

Matthew R. Barbour  
Principal

## Independent Auditor's Report

To the Board of Directors of  
Animal Refuge League of Greater Portland

We have audited the accompanying financial statements of Animal Refuge League of Greater Portland (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses 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 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 Refuge League of Greater Portland as of December 31, 2018 and 2017, 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.



Portland, Maine

March 25, 2019

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND**

**STATEMENTS OF FINANCIAL POSITION**

as of December 31, 2018 and 2017

*(See Independent Auditor's Report)*

|  | <u>2018</u>          | <u>2017</u>          |
|--|----------------------|----------------------|
| <b><u>ASSETS</u></b>                     |                      |                      |
| Current assets:                          |                      |                      |
| Cash and equivalents                     | \$ 294,471           | \$ 239,144           |
| Accounts receivable                      | 20,434               | 36,595               |
| Pledges receivable, current portion      | 70,928               | 143,141              |
| Investments                              | 6,190,033            | 7,207,229            |
| Inventory                                | 5,323                | 3,796                |
| Prepaid expenses                         | 33,411               | 33,979               |
| Other current assets                     | 37,127               | -                    |
| Total current assets                     | <u>6,651,727</u>     | <u>7,663,884</u>     |
| Property, plant and equipment:           |                      |                      |
| Land and improvements                    | 467,894              | 467,894              |
| Buildings and improvements               | 9,802,990            | 9,802,990            |
| Machinery and equipment                  | 1,019,125            | 940,608              |
| Vehicles                                 | 57,349               | 57,349               |
| Construction in progress                 | 28,228               | -                    |
|  | <u>11,375,586</u>    | <u>11,268,841</u>    |
| Less accumulated depreciation            | 1,964,459            | 1,594,709            |
| Total property, plant and equipment      | <u>9,411,127</u>     | <u>9,674,132</u>     |
| Other assets:                            |                      |                      |
| Pledges receivable, less current portion | 32,616               | 104,506              |
| Note receivable                          | 300,000              | 300,000              |
| Restricted endowment - cash              | 28,881               | 28,747               |
| Investments held by outside trusts       | 67,747               | 75,944               |
| Total other assets                       | <u>429,244</u>       | <u>509,197</u>       |
| Total Assets                             | <u>\$ 16,492,098</u> | <u>\$ 17,847,213</u> |
| <b><u>LIABILITIES AND NET ASSETS</u></b> |                      |                      |
| Current liabilities:                     |                      |                      |
| Notes payable, current portion           | \$ 464,229           | \$ 464,229           |
| Accounts payable                         | 91,001               | 70,564               |
| Accrued expenses                         | 102,646              | 96,619               |
| Deferred revenue                         | 70,892               | 70,892               |
| Total current liabilities                | <u>728,768</u>       | <u>702,304</u>       |
| Other liabilities:                       |                      |                      |
| Notes payable, less current portion      | 3,713,828            | 4,178,057            |
| Private unfunded pension                 | 60,000               | 66,000               |
| Total other liabilities                  | <u>3,773,828</u>     | <u>4,244,057</u>     |
| Net assets:                              |                      |                      |
| Without donor restrictions               | 11,745,144           | 12,672,450           |
| With donor restrictions                  | 244,358              | 228,402              |
| Total net assets                         | <u>11,989,502</u>    | <u>12,900,852</u>    |
| Total Liabilities and Net Assets         | <u>\$ 16,492,098</u> | <u>\$ 17,847,213</u> |

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

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND**

STATEMENT OF ACTIVITIES

for the year ended December 31, 2018

*(See Independent Auditor's Report)*

|  | <u>Without Donor</u><br><u>Restrictions</u> | <u>With Donor</u><br><u>Restrictions</u> | <u>Total</u>               |
|--|---|--|----------------------------|
| Operating revenues, gains and other support:   |   |  |                            |
| Contributions  | 644,333                                     | 256,367                                  | \$ 900,700                 |
| Bequests   | 186,363                                     | -  | 186,363                    |
| Annual fund  | 326,984                                     | -  | 326,984                    |
| Municipal contracts  | 283,569                                     | -  | 283,569                    |
| Placed animal adoption fees  | 651,874                                     | -  | 651,874                    |
| Shelter services   | 188,138                                     | -  | 188,138                    |
| Special events   | 293,163                                     | -  | 293,163                    |
| In-kind donations  | 172,700                                     | -  | 172,700                    |
| Merchandise sales  | 18,421                                      | -  | 18,421                     |
| Other income   | 2,863                                       | -  | 2,863                      |
| Net assets released from restrictions:   |   |  |                            |
| Satisfaction of time and purpose restrictions  | 232,214                                     | (232,214)                                | -                          |
| Total operating revenues, gains and other support  | <u>3,000,622</u>                            | <u>24,153</u>                            | <u>3,024,775</u>           |
| Operating expenses:  |   |  |                            |
| Program services   | 2,824,252                                   | -  | 2,824,252                  |
| Management and general   | 450,622                                     | -  | 450,622                    |
| Fundraising  | 528,767                                     | -  | 528,767                    |
| Total operating expenses   | <u>3,803,641</u>                            | <u>-</u>                                 | <u>3,803,641</u>           |
| Operating revenues, gains and other support<br>in excess (deficit) of operating expenses | (803,019)                                   | 24,153                                   | (778,866)                  |
| Other changes:   |   |  |                            |
| Dividends and interest, net of fees totaling \$28,382                                    | 119,700                                     | -  | 119,700                    |
| Trust income   | 1,747                                       | -  | 1,747                      |
| Realized and unrealized gains (losses) on investments, net                               | (245,734)                                   | -  | (245,734)                  |
| Change in value of investments held by outside trusts                                    | -   | (8,197)                                  | (8,197)                    |
| Change in net assets   | (927,306)                                   | 15,956                                   | (911,350)                  |
| Net assets at beginning of year  | <u>12,672,450</u>                           | <u>228,402</u>                           | <u>12,900,852</u>          |
| Net assets at end of year  | <u><u>\$11,745,144</u></u>                  | <u><u>\$ 244,358</u></u>                 | <u><u>\$11,989,502</u></u> |

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

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND**

STATEMENT OF ACTIVITIES

for the year ended December 31, 2017

*(See Independent Auditor's Report)*

|  | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>        |
|--|---------------------------------------|------------------------------------|---------------------|
| Operating revenues, gains and other support:   |                                       |                                    |                     |
| Contributions  | 492,314                               | 172,503                            | \$ 664,817          |
| Bequests   | 277,405                               | -                                  | 277,405             |
| Annual fund  | 348,132                               | -                                  | 348,132             |
| Municipal contracts  | 280,826                               | -                                  | 280,826             |
| Placed animal adoption fees  | 533,582                               | -                                  | 533,582             |
| Shelter services   | 169,308                               | -                                  | 169,308             |
| Special events   | 255,640                               | -                                  | 255,640             |
| In-kind donations  | 176,820                               | -                                  | 176,820             |
| Merchandise sales  | 14,877                                | -                                  | 14,877              |
| Other income   | 1,358                                 | -                                  | 1,358               |
| Net assets released from restrictions:   |                                       |                                    |                     |
| Satisfaction of time and purpose restrictions  | 61,306                                | (61,306)                           | -                   |
| Total operating revenues, gains and other support  | <u>2,611,568</u>                      | <u>111,197</u>                     | <u>2,722,765</u>    |
| Operating expenses:  |                                       |                                    |                     |
| Program services   | 2,313,174                             | -                                  | 2,313,174           |
| Management and general   | 429,460                               | -                                  | 429,460             |
| Fundraising  | 465,942                               | -                                  | 465,942             |
| Total operating expenses   | <u>3,208,576</u>                      | <u>-</u>                           | <u>3,208,576</u>    |
| Operating revenues, gains and other support<br>in excess (deficit) of operating expenses | (597,008)                             | 111,197                            | (485,811)           |
| Other changes:   |                                       |                                    |                     |
| Dividends and interest, net of fees totaling \$27,488                                    | 94,792                                | -                                  | 94,792              |
| Trust income   | 2,189                                 | -                                  | 2,189               |
| Realized and unrealized gains (losses) on investments, net                               | 904,323                               | -                                  | 904,323             |
| Change in value of investments held by outside trusts                                    | -                                     | 7,654                              | 7,654               |
| Change in net assets   | 404,296                               | 118,851                            | 523,147             |
| Net assets at beginning of year  | <u>12,268,154</u>                     | <u>109,551</u>                     | <u>12,377,705</u>   |
| Net assets at end of year  | <u>\$ 12,672,450</u>                  | <u>\$ 228,402</u>                  | <u>\$12,900,852</u> |

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

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND****STATEMENT OF FUNCTIONAL EXPENSES**

for the year ended December 31, 2018

*(See Independent Auditor's Report)*

|                                | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>        |
|--------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and wages             | \$ 1,211,606                | \$ 212,972                        | \$ 196,680         | \$ 1,621,258        |
| Depreciation                   | 267,178                     | 57,252                            | 57,252             | 381,682             |
| Veterinarian fees and supplies | 205,731                     | 92                                | -                  | 205,823             |
| Interest expense               | 127,451                     | 27,684                            | 27,684             | 182,819             |
| Employee benefits              | 115,360                     | 29,336                            | 20,974             | 165,670             |
| In-kind donations              | 169,400                     | -                                 | 3,300              | 172,700             |
| Repairs and maintenance        | 120,832                     | 21,363                            | 13,174             | 155,369             |
| Utilities                      | 96,024                      | 22,074                            | 18,051             | 136,149             |
| Payroll taxes                  | 96,018                      | 15,861                            | 14,636             | 126,515             |
| Shelter operations             | 119,329                     | 3,270                             | 1,433              | 124,032             |
| Fundraising expense            | 15,688                      | -                                 | 82,258             | 97,946              |
| Animal transport expenses      | 78,536                      | -                                 | -                  | 78,536              |
| Insurance                      | 54,040                      | 9,410                             | 11,836             | 75,286              |
| Computer services              | 45,202                      | 6,747                             | 5,202              | 57,151              |
| Bank and payroll fees          | 26,158                      | 2,442                             | 17,786             | 46,386              |
| Special events expense         | -                           | -                                 | 42,759             | 42,759              |
| Miscellaneous                  | 13,919                      | 4,926                             | 2,144              | 20,989              |
| Travel and vehicle expenses    | 17,917                      | 106                               | -                  | 18,023              |
| Telephone                      | 12,014                      | 2,596                             | 2,596              | 17,206              |
| Professional fees              | 361                         | 14,511                            | -                  | 14,872              |
| Advertising                    | 1,353                       | 4,857                             | 6,386              | 12,596              |
| Educational expenses           | 9,873                       | -                                 | -                  | 9,873               |
| Merchandise for resale         | 9,514                       | -                                 | -                  | 9,514               |
| Printing and postage           | 425                         | 5,228                             | 2,765              | 8,418               |
| Office supplies and expenses   | 3,943                       | 2,248                             | 74                 | 6,265               |
| Pension expense                | -                           | 6,120                             | -                  | 6,120               |
| Impound fees                   | 5,365                       | -                                 | -                  | 5,365               |
| Dues and licenses              | 1,015                       | 1,527                             | 75                 | 2,617               |
| Capital campaign               | -                           | -                                 | 1,702              | 1,702               |
| Total expenses                 | <u>\$ 2,824,252</u>         | <u>\$ 450,622</u>                 | <u>\$ 528,767</u>  | <u>\$ 3,803,641</u> |

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

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND****STATEMENT OF FUNCTIONAL EXPENSES**

for the year ended December 31, 2017

*(See Independent Auditor's Report)*

|                                | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>        |
|--------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and wages             | \$ 942,896                  | \$ 179,511                        | \$ 165,849         | \$ 1,288,256        |
| Depreciation                   | 256,002                     | 54,857                            | 54,857             | 365,716             |
| Interest expense               | 130,776                     | 28,023                            | 28,023             | 186,822             |
| In-kind donations              | 170,540                     | -                                 | 6,280              | 176,820             |
| Veterinarian fees and supplies | 172,641                     | 627                               | -                  | 173,268             |
| Employee benefits              | 87,730                      | 24,402                            | 10,764             | 122,896             |
| Repairs and maintenance        | 73,805                      | 32,007                            | 12,993             | 118,805             |
| Shelter operations             | 110,071                     | 2,068                             | 1,694              | 113,833             |
| Utilities                      | 74,683                      | 24,290                            | 14,291             | 113,264             |
| Payroll taxes                  | 75,210                      | 13,181                            | 12,141             | 100,532             |
| Fundraising expense            | 3,255                       | 52                                | 70,833             | 74,140              |
| Computer services              | 47,921                      | 6,181                             | 11,007             | 65,109              |
| Animal transport expenses      | 55,730                      | -                                 | -                  | 55,730              |
| Insurance                      | 35,947                      | 10,419                            | 7,169              | 53,535              |
| Special events expense         | -                           | -                                 | 41,441             | 41,441              |
| Bank and payroll fees          | 23,504                      | 3,035                             | 14,092             | 40,631              |
| Telephone                      | 12,088                      | 2,590                             | 2,590              | 17,268              |
| Professional fees              | 1,264                       | 15,833                            | -                  | 17,097              |
| Printing and postage           | 533                         | 12,267                            | 1,351              | 14,151              |
| Miscellaneous                  | 8,662                       | 3,557                             | 555                | 12,774              |
| Advertising                    | 34                          | 1,790                             | 6,778              | 8,602               |
| Pension expense                | -                           | 8,120                             | -                  | 8,120               |
| Educational expenses           | 7,677                       | -                                 | 155                | 7,832               |
| Travel and vehicle expenses    | 4,876                       | 1,702                             | 72                 | 6,650               |
| Merchandise for resale         | 6,324                       | -                                 | -                  | 6,324               |
| Impound fees                   | 6,230                       | -                                 | -                  | 6,230               |
| Office supplies and expenses   | 3,595                       | 2,368                             | 147                | 6,110               |
| Dues and licenses              | 690                         | 2,580                             | 1,404              | 4,674               |
| Capital campaign               | 490                         | -                                 | 1,456              | 1,946               |
| Total expenses                 | <u>\$ 2,313,174</u>         | <u>\$ 429,460</u>                 | <u>\$ 465,942</u>  | <u>\$ 3,208,576</u> |

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

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND**

**STATEMENTS OF CASH FLOWS**

as of December 31, 2018 and 2017

*(See Independent Auditor's Report)*

|   | <u>2018</u>        | <u>2017</u>        |
|---|--------------------|--------------------|
| Cash flows from operating activities:   |                    |                    |
| Change in net assets  | \$ (911,350)       | \$ 523,147         |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                    |                    |
| Depreciation  | 381,682            | 365,716            |
| Realized and unrealized (gains) losses on investments, net                                  | 245,734            | (904,323)          |
| Change in value of investments held by outside trusts                                       | 8,197              | (7,654)            |
| Donated investments   | (25,788)           | (53,688)           |
| (Increase) decrease in operating assets:  |                    |                    |
| Accounts receivable   | 16,161             | (18,785)           |
| Pledges receivable  | 144,103            | 132,674            |
| Inventory   | (1,527)            | (3,459)            |
| Prepaid expenses  | 568                | (5,970)            |
| Other current assets  | (37,127)           | -                  |
| Increase (decrease) in operating liabilities:   |                    |                    |
| Accounts payable  | 20,437             | (508,668)          |
| Accrued expenses  | 6,027              | 25,911             |
| Deferred revenue  | -                  | 1,372              |
| Private unfunded pension  | (6,000)            | (4,000)            |
| Net cash provided (used) by operating activities  | <u>(158,883)</u>   | <u>(457,727)</u>   |
| Cash flows from investing activities:   |                    |                    |
| Purchases of property, plant and equipment  | (118,677)          | -                  |
| Proceeds from sale of investments   | 2,189,635          | 1,818,871          |
| Purchases of investments  | <u>(1,392,385)</u> | <u>(1,443,984)</u> |
| Net cash provided (used) by investing activities  | 678,573            | 374,887            |
| Cash flows from financing activities:   |                    |                    |
| Proceeds from notes payable   | -                  | 116,902            |
| Repayments of notes payable   | <u>(464,229)</u>   | <u>-</u>           |
| Net cash provided (used) by financing activities  | <u>(464,229)</u>   | <u>116,902</u>     |
| Net change in cash and equivalents, and restricted endowment - cash during the year         | 55,461             | 34,062             |
| Cash and equivalents, and restricted endowment - cash at beginning of year                  | <u>267,891</u>     | <u>233,829</u>     |
| Cash and equivalents, and restricted endowment - cash at end of year                        | <u>\$ 323,352</u>  | <u>\$ 267,891</u>  |
| <i>Supplemental cash flow disclosures:</i>  |                    |                    |
| Cash paid for interest  | <u>\$ 184,558</u>  | <u>\$ 186,079</u>  |

*Summary of significant non-cash disclosures:*

The Organization had noncash investing and financing transactions relating to the purchases of property, plant and equipment with bank financing of \$- in 2018 and \$256,769 in 2017.



**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND**

NOTES TO THE FINANCIAL STATEMENTS

for the years ended December 31, 2018 and 2017

(See Independent Auditor's Report)

1. NATURE OF THE ORGANIZATION:

The Animal Refuge League of Greater Portland (the "Organization") nurtures the connection between people and pets to advance animal welfare and improve the quality of life in its community. The Organization provides temporary care and shelter for stray, abandoned, confiscated and relinquished animals, and places as many as possible into responsible and caring homes. The Organization also works to create awareness and support for the humane treatment of all animals, to end animal overpopulation through education and the promotion of spaying and neutering, and to make end-of-life decisions based on safety and animal welfare considerations. The Organization's principal sources of revenue are donations, fees, investment income and fundraising activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Recently Adopted Accounting Pronouncements

Effective January 1, 2017, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, prior to its required effective date. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources—and the changes in those resources—to donors, grantors, creditors and other financial statement users.

ASU 2016-14 decreases the number of net asset classes from three to two; requires to use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset); continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, eliminating the requirement for those who use the direct method to perform reconciliation with the indirect method; requires a not-for-profit to provide qualitative and quantitative information regarding its liquidity and availability of resources; and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. The adoption of this ASU had a significant impact on the presentation of the Organization's financial statements and the amendments in this ASU were applied on a retrospective basis.

During the year ended December 31, 2017, the Organization also adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, prior to its required effective date. The amendments in this ASU require that amounts generally described as restricted cash should be included with cash and equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The amendments in this ASU were applied on a retrospective basis.

Basis of Presentation

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

Net Assets with Donor Restrictions

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

Net Assets without Donor Restrictions

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

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND**

NOTES TO THE FINANCIAL STATEMENTS

for the years ended December 31, 2018 and 2017

(See Independent Auditor's Report)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Cash and Equivalents

Cash and equivalents include cash in banks and all highly liquid investments with original maturities of three months or less at the time of purchase. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant risk on cash and equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, or reserves against, any specific accounts deemed to have collection risks. No allowance for bad debt was considered necessary at December 31, 2018 and 2017.

Pledges Receivable

In accordance with ASU 2016-14, the Organization is required to discount pledges that are not fully collectible within one year to their present value; these discounts are ratably amortized over the life of the pledges. The Organization uses the allowance method to account for uncollectible pledges. The allowance is based on management's estimate of possible bad debts.

Conditional pledges are not recorded until the conditions on which they depend are substantially met.

Bequests Receivable

Bequests in valid wills and trusts are considered conditional promises to give and, as such, are not recorded as income for financial statement purposes until received.

Inventory

Inventory consists of items held for resale and is valued at the lower of cost or market. Cost is determined by specific identification of each unit.

Property, Plant and Equipment

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

|                           | <u>Years</u> |
|---------------------------|--------------|
| Land improvements         | 15-25        |
| Building and improvements | 5-39         |
| Machinery and equipment   | 3-25         |
| Vehicles                  | 5            |

Expenditures over \$5,000 for major renewals and betterments, which extend the useful lives of property, plant and equipment, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. For assets sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities.

Depreciation expense for the years ended December 31, 2018 and 2017 was \$381,682 and \$365,716, respectively.

Deferred Revenue

Deferred revenue consists of advanced payments received from municipal contracts.

**ANIMAL REFUGE LEAGUE OF GREATER PORTLAND**

NOTES TO THE FINANCIAL STATEMENTS

for the years ended December 31, 2018 and 2017

(See Independent Auditor's Report)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Measure of Operations

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

Revenue Recognition

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

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, restricted by the donor in perpetuity, or restricted for specific purposes are reported as an increase in net assets with donor restrictions. When a donor restriction expires (i.e. when a stipulated time restriction ends or purpose restriction is accomplished) net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Services and Items

The Organization recognizes donated marketable securities and other noncash items at their estimated fair values at the date of donation. Donated services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The fair value of donated services and items recognized by the Organization for the years ended December 31, 2018 and 2017 was \$172,700 and \$176,820, respectively.

Many individuals volunteer their time and help the Organization with a wide variety of services and programs, both inside and outside the shelter. The Organization receives more than 30,000 volunteer hours per year. The fair value of these services has not been reflected in the financial statements.

Functional Allocation of Expenses

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

Advertising

Advertising costs are expensed as they are incurred. Advertising costs for the years ended December 31, 2018 and 2017 were \$12,596 and \$8,602, respectively.

Income Tax Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax is required.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Income Tax Status (continued)

Management has evaluated the Organization's tax positions and concluded that as of December 31, 2018, it does not believe that any tax positions that would require adjustments to the financial statements have been taken. As of December 31, 2018, the Organization was open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2015 through 2018.

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

3. PLEDGES RECEIVABLE:

As of December 31, 2018 and 2017, pledges receivable are due to be collected as follows:

|                    | 2018              | 2017              |
|--------------------|-------------------|-------------------|
| Amounts due in:    |                   |                   |
| Less than one year | \$ 70,928         | \$ 143,141        |
| One to five years  | 32,616            | 104,506           |
| Total              | <u>\$ 103,544</u> | <u>\$ 247,647</u> |

Management believes that all pledges are fully collectible; therefore, no allowance for uncollectible accounts has been recorded.

4. NOTE RECEIVABLE:

During the year ended December 31, 2012, the Organization sold 51.62 acres of land to Stroudwater Landing LLC in exchange for \$240,000 cash and a note receivable for \$760,000 secured by a mortgage deed on the land. The note had a fixed rate of interest of 2.21% per annum, with monthly interest only payments of \$1,400 until a required principal payment of \$460,000 was made during the year ended December 31, 2015. Monthly interest on the remaining \$300,000 principal is paid monthly and a final principal payment of \$300,000 is scheduled for no later than December 31, 2020.

5. INVESTMENTS:

Investments are carried at fair value, and realized and unrealized gains and losses, and investment income are reflected in the statements of activities.

Investments were composed of the following as of December 31:

|                             | 2018<br>Fair Value  | 2017<br>Fair Value  |
|-----------------------------|---------------------|---------------------|
| Equities                    | \$ 3,316,392        | \$ 3,837,202        |
| Fixed Income                | 1,981,418           | 1,915,296           |
| Equity Funds                | 593,461             | 701,090             |
| Cash and Money Market Funds | 196,216             | 604,161             |
| Other                       | 102,546             | 149,480             |
| Total                       | <u>\$ 6,190,033</u> | <u>\$ 7,207,229</u> |

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5. INVESTMENTS (CONTINUED):

Investment activity is reflected in the following table for the years ended December 31:

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
| Investments at beginning of year            | \$ 7,207,229        | \$ 6,624,105        |
| Donated investments                         | 25,788              | 53,688              |
| Investment returns, net:                    |                     |                     |
| Dividends and interest, net of fees         | 112,076             | 88,623              |
| Realized and unrealized gains (losses)      | <u>(245,734)</u>    | <u>904,323</u>      |
| Total return on investments                 | 357,810             | 992,946             |
| Amounts appropriated for current operations | <u>(909,326)</u>    | <u>(463,510)</u>    |
| Investments at end of year                  | <u>\$ 6,190,033</u> | <u>\$ 7,207,229</u> |

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

6. ENDOWMENT:

During the year ended December 31, 2012, the Organization received an endowment from Bruce and Lottie Tornquist which stipulated that the principal be invested and the income only be used for the benefit of the Organization. The principal is currently invested in a savings account.

Changes in net assets for the endowment are as follows:

|                                | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>     |
|--------------------------------|---------------------------------------|------------------------------------|------------------|
| December 31, 2018              |                                       |                                    |                  |
| Endowment at beginning of year | \$ 376                                | \$ 28,371                          | \$ 28,747        |
| Interest                       | <u>134</u>                            | <u>-</u>                           | <u>134</u>       |
| Endowment at end of year       | <u>\$ 510</u>                         | <u>\$ 28,371</u>                   | <u>\$ 28,881</u> |
| December 31, 2017              |                                       |                                    |                  |
| Endowment at beginning of year | \$ 285                                | \$ 28,371                          | \$ 28,656        |
| Interest                       | <u>91</u>                             | <u>-</u>                           | <u>91</u>        |
| Endowment at end of year       | <u>\$ 376</u>                         | <u>\$ 28,371</u>                   | <u>\$ 28,747</u> |

7. INVESTMENTS HELD BY OUTSIDE TRUSTS:

The Organization is a beneficiary of the following charitable trusts:

Lana S. Morton Trust

The Organization is a beneficiary of the Lana S. Morton charitable trust that was established in perpetuity and is held and administered by an outside trustee. Under the terms of the trust, the outside trustee pays the income of the trust equally to one life-time income beneficiary and the Organization. Upon the death of the beneficiary, 100% of the annual income will be distributed to the Organization in perpetuity. The trust's owned assets for the benefit of the Organization had a market value of \$29,807 and \$32,485 as of December 31, 2018 and 2017, respectively. Distributions from the trust totaled \$130 and \$525 during the years ended December 31, 2018 and 2017, respectively.

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7. INVESTMENTS HELD BY OUTSIDE TRUSTS (CONTINUED):

Madge C. Fairfax Trust

The Organization is a beneficiary of the Madge C. Fairfax charitable trust that was established in perpetuity and is held and administered by an outside trustee. The Organization will receive annual distributions equal to 3.28% of the income of the trust in perpetuity. The trust's owned assets for the benefit of the Organization had a market value of \$17,800 and \$20,314 as of December 31, 2018 and 2017, respectively. Distributions from the trust totaled \$673 and \$789 during the years ended December 31, 2018 and 2017, respectively.

Pauline Bill Trust

The Organization is a beneficiary of the Pauline Bill charitable trust that was established in perpetuity and is held and administered by an outside trustee. The Organization will receive annual distributions equal to 3.28% of the income of the trust in perpetuity. The trust's owned assets for the benefit of the Organization had a market value of \$20,140 and \$23,145 as of December 31, 2018 and 2017, respectively. Distributions from the trust totaled \$944 and \$875 during the years ended December 31, 2018 and 2017, respectively.

8. FAIR VALUE MEASUREMENTS:

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

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

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

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

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

For the years ended December 31, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

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

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8. FAIR VALUE MEASUREMENTS (CONTINUED):

Investments Held by Outside Trusts

The fair value of investments held by outside trusts has been measured by multiplying the trusts' market values based on quoted market prices by the percentage of assets each trust held for the benefit of the Organization.

Fair values of assets measured on a recurring basis are as follows:

|                                    | Fair Value          | Fair Value Measurements<br>At Reporting Date Using |                  |             |
|------------------------------------|---------------------|--|------------------|-------------|
|                                    |                     | (Level 1)  | (Level 2)        | (Level 3)   |
| December 31, 2018                  |                     |  |                  |             |
| Investments                        | \$ 6,190,033        | \$ 6,190,033                                       | \$ -             | \$ -        |
| Investments held by outside trusts | <u>67,747</u>       | <u>-</u>   | <u>67,747</u>    | <u>-</u>    |
|                                    | <u>\$ 6,257,780</u> | <u>\$ 6,190,033</u>                                | <u>\$ 67,747</u> | <u>\$ -</u> |
| December 31, 2017                  |                     |  |                  |             |
| Investments                        | \$ 7,207,229        | \$ 7,207,229                                       | \$ -             | \$ -        |
| Investments held by outside trusts | <u>75,944</u>       | <u>-</u>   | <u>75,944</u>    | <u>-</u>    |
|                                    | <u>\$ 7,283,173</u> | <u>\$ 7,207,229</u>                                | <u>\$ 75,944</u> | <u>\$ -</u> |

There were no transfers between the levels in the fair value hierarchy during the years ended December 31, 2018 and 2017.

The carrying amounts of cash and equivalents, accounts receivables, pledges receivable, note receivable, inventory, prepaid expenses, restricted endowment – cash, line of credit, notes payable, accounts payable, accrued expenses, deferred revenue, and private unfunded pension approximate fair value.

9. LINE OF CREDIT:

The Organization has a \$100,000 working capital line-of-credit agreement with a lending institution that originated in April 2016 and is set to be renewed annually. Interest is charged at the Wall Street Journal Prime rate with a floor of 4% adjusting daily. Monthly payments of all accrued interest are due as of each payment date. The line-of-credit is secured by the shared first security interest in all business assets of the Organization. There was no balance outstanding as of December 31, 2018 and 2017.

10. NOTES PAYABLE:

Notes payable consisted of the following as of December 31:

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
| Construction note payable to a lending institution, entered into on April 14, 2016, at a fixed interest rate of 3.99% for the first 78 months, then floating at the Wall Street Journal Prime rate with a floor of 4% and a ceiling of 5.5% adjusting daily for the remaining 60 months; up to 18 months interest only payments during the "construction phase" followed by 120 monthly interest payments with an annual principal reduction totaling \$413,925, due in each 12 month period during the "repayment phase" of 10 years; secured by the first security interest in real property, buildings, improvements and personal property located at 449 Stroudwater Street, Westbrook, Maine, collateral assignment of leases, rents, plans, specifications, permits, contracts and approvals on the new facility as well as the existing facility, and the shared first security interest in all business assets of the Organization. | \$ 3,725,325        | \$ 4,139,250        |
| Balance forward   | <u>\$ 3,725,325</u> | <u>\$ 4,139,250</u> |

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*(See Independent Auditor's Report)*

10. NOTES PAYABLE (CONTINUED):

|  |                     |                     |
|--|---------------------|---------------------|
| Balance carried forward  | \$ 3,725,325        | \$ 4,139,250        |
| Construction note payable to a lending institution, entered into on April 14, 2016, at a fixed interest rate of 3.99% for the first 78 months, then floating at the Wall Street Journal Prime rate with a floor of 4% and a ceiling of 5.5% adjusting daily for the remaining 60 months; up to 18 months interest only payments during the "construction phase" followed by 120 monthly interest payments with an annual principal reduction totaling \$50,304, due in each 12 month period during the "repayment phase" of 10 years; secured by the first security interest in real property, buildings, improvements and personal property located at 449 Stroudwater Street, Westbrook, Maine, collateral assignment of leases, rents, plans, specifications, permits, contracts and approvals on the new facility as well as the existing facility, and the shared first security interest in all business assets of the Organization. | <u>452,732</u>      | <u>503,036</u>      |
|  | 4,178,057           | 4,642,286           |
| Less current portion   | <u>(464,229)</u>    | <u>(464,229)</u>    |
| Notes payable, net of current portion  | <u>\$ 3,713,828</u> | <u>\$ 4,178,057</u> |

The repayment phase on these notes payable began in November 2017.

Maturities of notes payable over the next five years are as follows:

|            |                     |
|------------|---------------------|
| 2019       | \$ 464,229          |
| 2020       | 464,229             |
| 2021       | 464,229             |
| 2022       | 464,229             |
| 2023       | 464,229             |
| Thereafter | <u>1,856,912</u>    |
| Total      | <u>\$ 4,178,057</u> |

The loan agreements include compliance with a loan covenant. As of December 31, 2018 and 2017, the Organization was in compliance with it.

11. NET ASSETS WITH DONOR RESTRICTIONS:

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

|  | <u>2018</u>       | <u>2017</u>       |
|--|-------------------|-------------------|
| Subject to expenditure for specific purposes:                                    |                   |                   |
| Restricted to capacity building, pet training and behavioral department start-up | \$ 70,780         | \$ 105,000        |
| Restricted to spay/neuter programs   | 67,945            | 11,270            |
| Restricted to animal emergency fund  | 1,011             | 1,814             |
| Restricted to other uses   | 8,504             | 4,149             |
| Restricted to animal transportation programs                                     | -                 | 1,854             |
| Not subject to appropriation and expenditure:                                    |                   |                   |
| Donor-designated permanent endowment fund, Note 6                                | 28,371            | 28,371            |
| Investments held by outside trusts, Note 7                                       | <u>67,747</u>     | <u>75,944</u>     |
| Total  | <u>\$ 244,358</u> | <u>\$ 228,402</u> |



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**12. NET ASSETS RELEASED FROM DONOR RESTRICTIONS:**

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

|  | <u>2018</u>       | <u>2017</u>      |
|--|-------------------|------------------|
| Purpose restrictions accomplished:   |                   |                  |
| Restricted to capacity building, pet training and behavioral department start-up | \$ 134,220        | \$ -             |
| Restricted to spay/neuter programs   | 78,325            | 3,730            |
| Restricted to animal emergency fund  | 9,951             | 2,558            |
| Restricted to animal transportation programs                                     | 1,854             | 5,330            |
| Restricted to other uses   | 7,864             | 7,242            |
| Restricted to building a new shelter   | -                 | 35,446           |
| Restricted to humane education programs  | -                 | 5,000            |
| Restricted to pet food pantry  | -                 | 2,000            |
| Total restrictions released  | <u>\$ 232,214</u> | <u>\$ 61,306</u> |

**13. LIQUIDITY AND AVAILABILITY OF RESOURCES:**

The following reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statements of financial position dates.

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
| Financial assets, at year-end   | \$ 7,080,971        | \$ 8,173,081        |
| Less those unavailable for general expenditures within one year, due to:              |                     |                     |
| Minimum securities balance required under lending arrangements                        | 4,000,000           | 4,000,000           |
| Contractual or donor-imposed restrictions:  |                     |                     |
| Restricted by donors with time or purpose restrictions                                | 148,240             | 124,087             |
| Restricted by donors in perpetuity  | 96,118              | 104,315             |
| Financial assets available to meet cash needs for general expenditure within one year | <u>\$ 2,849,486</u> | <u>\$ 3,944,679</u> |

The Organization is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Organization also could draw upon its available line of credit (refer to Note 9).

**14. PRIVATE UNFUNDED PENSION:**

The Organization has formal agreements with two former employees. Terms of the agreements call for annual payments of \$8,100 and \$4,020 for the remainder of the respective employees' lives. These agreements are considered non-qualified pensions. The Plan is unfunded and the liability, which is recorded at the net present value of expected future payments, in the amount of approximately \$60,000 and \$66,000 has been recorded as of December 31, 2018 and 2017, respectively.

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15. SPECIAL EVENTS:

Special events consisted of the following for the years ended:

|                      | Special Events    |                    |                   |
|----------------------|-------------------|--------------------|-------------------|
|                      | Revenue           | Expenses           | Net               |
| December 31, 2018    |                   |                    |                   |
| Annual Gala          | \$ 124,240        | \$ (18,431)        | \$ 105,809        |
| Ales for Tails       | 58,527            | (15,631)           | 42,896            |
| Holiday Open House   | 25,770            | (8,697)            | 17,073            |
| Business Fundraisers | 49,561            | -                  | 49,561            |
| Other Fundraisers    | 35,065            | -                  | 35,065            |
|                      | <u>\$ 293,163</u> | <u>\$ (42,759)</u> | <u>\$ 250,404</u> |
| December 31, 2017    |                   |                    |                   |
| Annual Gala          | \$ 93,092         | \$ (19,921)        | \$ 73,171         |
| Ales for Tails       | 48,504            | (13,696)           | 34,808            |
| Holiday Open House   | 24,058            | (7,824)            | 16,234            |
| Business Fundraisers | 62,785            | -                  | 62,785            |
| Other Fundraisers    | 27,201            | -                  | 27,201            |
|                      | <u>\$ 255,640</u> | <u>\$ (41,441)</u> | <u>\$ 214,199</u> |

16. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 25, 2019, the date the financial statements were available to be issued.

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