

**ANIMAL
RESCUE
LEAGUE**
of BOSTON



**COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Contents
December 31, 2017 and 2016

	<u>Pages</u>
Independent Auditor's Report	1
Combined Financial Statements:	
Combined Statements of Financial Position	2 - 3
Combined Statements of Activities and Changes in Net Assets	4 - 5
Combined Statements of Cash Flows	6
Combined Statements of Functional Expenses	7 - 8
Notes to Combined Financial Statements	9 - 26

Independent Auditor's Report

To the Board of Directors of
Animal Rescue League of Boston and Affiliate:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Animal Rescue League of Boston (a Massachusetts corporation, not-for-profit) and Affiliate, which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

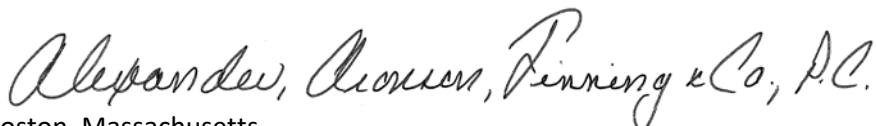
Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Animal Rescue League of Boston and Affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Boston, Massachusetts
June 19, 2018

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Combined Statement of Financial Position
December 31, 2017

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and equivalents	\$ 4,174,786	\$ 323,722	\$ -	\$ 4,498,508
Current portion of accounts, pledges and other receivables	315,880	127,000	-	442,880
Inventories and prepaid expenses	253,129	-	-	253,129
Total current assets	4,743,795	450,722	-	5,194,517
Accounts, Pledges and Other Receivables, net of current portion and discount	-	142,525	-	142,525
Investments, at fair value	56,639,293	13,837,214	7,561,667	78,038,174
Investment in Land	1,589,300	-	-	1,589,300
Property and Equipment, net	7,312,160	-	-	7,312,160
Beneficial Interest in Perpetual Trusts	-	-	13,104,584	13,104,584
Total assets	<u>\$ 70,284,548</u>	<u>\$ 14,430,461</u>	<u>\$ 20,666,251</u>	<u>\$ 105,381,260</u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 1,015,880	\$ -	\$ -	\$ 1,015,880
Capital Lease	9,500	-	-	9,500
Total liabilities	<u>1,025,380</u>	<u>-</u>	<u>-</u>	<u>1,025,380</u>
Net Assets:				
Unrestricted:				
Working capital	3,138,789	-	-	3,138,789
Property and equipment	7,312,160	-	-	7,312,160
Board Designated:				
Funds functioning as endowment	57,434,428	-	-	57,434,428
Capital spending fund	946,203	-	-	946,203
Long-term land use and facilities planning fund	427,588	-	-	427,588
Total unrestricted	69,259,168	-	-	69,259,168
Temporarily restricted	-	14,430,461	-	14,430,461
Permanently restricted	-	-	20,666,251	20,666,251
Total net assets	<u>69,259,168</u>	<u>14,430,461</u>	<u>20,666,251</u>	<u>104,355,880</u>
Total liabilities and net assets	<u>\$ 70,284,548</u>	<u>\$ 14,430,461</u>	<u>\$ 20,666,251</u>	<u>\$ 105,381,260</u>

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

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Combined Statement of Financial Position
December 31, 2016

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and equivalents	\$ 4,592,695	\$ 174,453	\$ -	\$ 4,767,148
Accounts and other receivables	427,000	-	-	427,000
Inventories and prepaid expenses	332,645	-	-	332,645
Total current assets	5,352,340	174,453	-	5,526,793
Investments, at fair value	46,482,132	11,432,881	7,555,667	65,470,680
Investment in Land	1,589,300	-	-	1,589,300
Property and Equipment, net	7,283,593	-	-	7,283,593
Beneficial Interest in Perpetual Trusts	-	-	11,657,381	11,657,381
Total assets	<u>\$ 60,707,365</u>	<u>\$ 11,607,334</u>	<u>\$ 19,213,048</u>	<u>\$ 91,527,747</u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 762,875	\$ -	\$ -	\$ 762,875
Net Assets:				
Unrestricted:				
Working capital	3,027,134	-	-	3,027,134
Property and equipment	7,283,593	-	-	7,283,593
Board Designated:				
Funds functioning as endowment	48,156,877	-	-	48,156,877
Capital spending fund	992,555	-	-	992,555
Long-term land use and facilities planning fund	484,331	-	-	484,331
Total unrestricted	59,944,490	-	-	59,944,490
Temporarily restricted	-	11,607,334	-	11,607,334
Permanently restricted	-	-	19,213,048	19,213,048
Total net assets	<u>59,944,490</u>	<u>11,607,334</u>	<u>19,213,048</u>	<u>90,764,872</u>
Total liabilities and net assets	<u>\$ 60,707,365</u>	<u>\$ 11,607,334</u>	<u>\$ 19,213,048</u>	<u>\$ 91,527,747</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

 Combined Statement of Activities and Changes in Net Assets
 For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Support and Revenues:				
Investment spending policy:				
Investment return appropriated for current operations	\$ 3,388,505	\$ -	\$ -	\$ 3,388,505
Public support	2,339,880	714,248	6,000	3,060,128
Service fees and other income	2,848,485	-	-	2,848,485
Income from trusts	581,161	-	-	581,161
Net assets released from purpose restrictions	578,787	(578,787)	-	-
Net assets released from time restrictions	1,667	(1,667)	-	-
	<u>9,738,485</u>	<u>133,794</u>	<u>6,000</u>	<u>9,878,279</u>
Total operating support and revenues				
Operating Expenses:				
Program services:				
Animal care services	6,891,437	-	-	6,891,437
Education and public information	425,181	-	-	425,181
	<u>7,316,618</u>	<u>-</u>	<u>-</u>	<u>7,316,618</u>
Total program services				
Supporting services:				
General and administrative	1,551,771	-	-	1,551,771
Fundraising	762,328	-	-	762,328
	<u>2,314,099</u>	<u>-</u>	<u>-</u>	<u>2,314,099</u>
Total supporting services				
Total operating expenses	<u>9,630,717</u>	<u>-</u>	<u>-</u>	<u>9,630,717</u>
Changes in net assets from operations	<u>107,768</u>	<u>133,794</u>	<u>6,000</u>	<u>247,562</u>
Non-Operating Revenues (Expenses):				
Investment return reduced by appropriation for current operations, net of investment fees	6,549,155	2,689,333	-	9,238,488
Bequests	2,727,045	-	-	2,727,045
Increase in beneficial interest in perpetual trusts	-	-	1,447,203	1,447,203
Gain on disposal of property and equipment	10,043	-	-	10,043
Costs associated with investment in land	(79,333)	-	-	(79,333)
	<u>9,206,910</u>	<u>2,689,333</u>	<u>1,447,203</u>	<u>13,343,446</u>
Total non-operating revenues (expenses)				
Changes in net assets	9,314,678	2,823,127	1,453,203	13,591,008
Net Assets:				
Beginning of year	<u>59,944,490</u>	<u>11,607,334</u>	<u>19,213,048</u>	<u>90,764,872</u>
End of year	<u>\$ 69,259,168</u>	<u>\$ 14,430,461</u>	<u>\$ 20,666,251</u>	<u>\$ 104,355,880</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

 Combined Statement of Activities and Changes in Net Assets
 For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Support and Revenues:				
Investment spending policy:				
Investment return appropriated for current operations	\$ 3,485,992	\$ -	\$ -	\$ 3,485,992
Public support	2,093,723	244,455	-	2,338,178
Service fees and other income	2,643,223	-	-	2,643,223
Income from trusts	548,751	-	-	548,751
Net assets released from purpose restrictions	500,539	(500,539)	-	-
Total operating support and revenues	<u>9,272,228</u>	<u>(256,084)</u>	<u>-</u>	<u>9,016,144</u>
Operating Expenses:				
Program services:				
Animal care services	6,319,297	-	-	6,319,297
Education and public information	383,836	-	-	383,836
Total program services	<u>6,703,133</u>	<u>-</u>	<u>-</u>	<u>6,703,133</u>
Supporting services:				
General and administrative	1,738,687	-	-	1,738,687
Fundraising	668,272	-	-	668,272
Total supporting services	<u>2,406,959</u>	<u>-</u>	<u>-</u>	<u>2,406,959</u>
Total operating expenses	<u>9,110,092</u>	<u>-</u>	<u>-</u>	<u>9,110,092</u>
Changes in net assets from operations	<u>162,136</u>	<u>(256,084)</u>	<u>-</u>	<u>(93,948)</u>
Non-Operating Revenues (Expenses):				
Investment return reduced by appropriation for current operations, net of investment fees	51,274	171,162	-	222,436
Bequests	945,652	-	-	945,652
Increase in beneficial interest in perpetual trusts	-	-	159,131	159,131
Gain on disposal of property and equipment	3,560	-	-	3,560
Other revenue	575,000	-	-	575,000
Costs associated with investment in land	(100,959)	-	-	(100,959)
Total non-operating revenues (expenses)	<u>1,474,527</u>	<u>171,162</u>	<u>159,131</u>	<u>1,804,820</u>
Changes in net assets	1,636,663	(84,922)	159,131	1,710,872
Net Assets:				
Beginning of year	<u>58,307,827</u>	<u>11,692,256</u>	<u>19,053,917</u>	<u>89,054,000</u>
End of year	<u>\$ 59,944,490</u>	<u>\$ 11,607,334</u>	<u>\$ 19,213,048</u>	<u>\$ 90,764,872</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Combined Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 13,591,008	\$ 1,710,872
Adjustments to reconcile changes in net assets to net cash and equivalents provided by (used in) operating activities:		
Depreciation	429,484	340,657
Net realized and unrealized gains on investments	(12,012,704)	(3,384,371)
Increase in beneficial interest in perpetual trusts	(1,447,203)	(159,131)
Gain on disposal of property and equipment	(10,043)	(3,560)
Discount on accounts, pledges and other receivables	7,475	-
Changes in operating assets and liabilities:		
Accounts, pledges and other receivables	(165,880)	(225,502)
Inventories and prepaid expenses	79,516	3,309
Accounts payable and accrued expenses	253,005	(17,199)
Capital lease	9,500	-
Pension benefit liability	-	(2,767,343)
	<u>734,158</u>	<u>(4,502,268)</u>
Net cash provided by (used in) operating activities		
	<u>734,158</u>	<u>(4,502,268)</u>
Cash Flows from Investing Activities:		
Sales of investments	10,686,238	9,190,563
Purchases of investments	(11,241,028)	(272,413)
Proceeds from sale of property	16,900	12,000
Acquisition of property and equipment	(464,908)	(3,505,495)
	<u>(1,002,798)</u>	<u>5,424,655</u>
Net cash provided by (used in) investing activities		
	<u>(1,002,798)</u>	<u>5,424,655</u>
Net Change in Cash and Equivalents	(268,640)	922,387
Cash and Equivalents:		
Beginning of year	<u>4,767,148</u>	<u>3,844,761</u>
End of year	<u>\$ 4,498,508</u>	<u>\$ 4,767,148</u>
Non-Cash Investing Transactions:		
Cost basis of construction in progress placed in service	<u>\$ -</u>	<u>\$ 2,252,464</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Combined Statement of Functional Expenses

For the Year Ended December 31, 2017

(With Summarized Comparative Totals for the Year Ended December 31, 2016)

	2017						2016	
	Program Services			Supporting Services				
	Animal Care Services	Education and Public Information	Total Program Services	General and Adminis- trative	Fundraising	Total Supporting Services		Total
Salaries, payroll taxes and fringe benefits	\$ 4,631,769	\$ 294,170	\$ 4,925,939	\$ 993,765	\$ 438,998	\$ 1,432,763	\$ 6,358,702	\$ 6,023,717
Program supplies	663,690	1,917	665,607	112	102	214	665,821	452,132
Depreciation	374,612	244	374,856	40,618	4,575	45,193	420,049	331,017
Repairs, maintenance and minor equipment	323,938	10,586	334,524	16,210	13,912	30,122	364,646	323,785
Insurance	181,323	7,258	188,581	41,996	9,068	51,064	239,645	272,047
Professional fees	26,096	34,147	60,243	170,404	2,253	172,657	232,900	492,441
Office supplies and other	83,471	22,105	105,576	66,538	55,310	121,848	227,424	226,169
Utilities	183,208	4,758	187,966	3,457	6,135	9,592	197,558	195,112
Printing and reproduction	2,017	39,290	41,307	360	153,489	153,849	195,156	169,238
Facility rentals	17,139	-	17,139	177,532	-	177,532	194,671	189,207
Outside services	177,848	-	177,848	-	-	-	177,848	146,608
Telephone and communications	90,216	1,489	91,705	18,861	47,945	66,806	158,511	124,526
Conferences, meetings and training	51,922	3,981	55,903	21,718	29,350	51,068	106,971	70,348
Vehicles and related services	83,352	-	83,352	-	-	-	83,352	75,434
Advertising	836	5,236	6,072	200	1,191	1,391	7,463	18,311
Total expenses	<u>\$ 6,891,437</u>	<u>\$ 425,181</u>	<u>\$ 7,316,618</u>	<u>\$ 1,551,771</u>	<u>\$ 762,328</u>	<u>\$ 2,314,099</u>	<u>\$ 9,630,717</u>	<u>\$ 9,110,092</u>

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

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Combined Statement of Functional Expenses
For the Year Ended December 31, 2016

	2016						Total
	Program Services			Supporting Services			
	Animal Care Services	Education and Public Information	Total Program Services	General and Adminis- trative	Fundraising	Total Supporting Services	
Salaries, payroll taxes and fringe benefits	\$ 4,367,457	\$ 267,080	\$ 4,634,537	\$ 1,084,423	\$ 304,757	\$ 1,389,180	\$ 6,023,717
Program supplies	451,480	287	451,767	112	253	365	452,132
Depreciation	275,695	-	275,695	48,139	7,183	55,322	331,017
Repairs, maintenance and minor equipment	293,073	5,330	298,403	16,364	9,018	25,382	323,785
Insurance	236,943	6,760	243,703	26,408	1,936	28,344	272,047
Professional fees	39,878	53,252	93,130	315,659	83,652	399,311	492,441
Office supplies and other	116,323	14,695	131,018	29,724	65,427	95,151	226,169
Utilities	180,335	4,628	184,963	3,538	6,611	10,149	195,112
Printing and reproduction	3,738	24,571	28,309	207	140,722	140,929	169,238
Facility rentals	19,105	-	19,105	170,102	-	170,102	189,207
Outside services	146,608	-	146,608	-	-	-	146,608
Telephone and communications	69,061	1,266	70,327	23,585	30,614	54,199	124,526
Conferences, meetings and training	42,513	3,921	46,434	19,474	4,440	23,914	70,348
Vehicles and related services	75,434	-	75,434	-	-	-	75,434
Advertising	1,654	2,046	3,700	952	13,659	14,611	18,311
Total expenses	\$ 6,319,297	\$ 383,836	\$ 6,703,133	\$ 1,738,687	\$ 668,272	\$ 2,406,959	\$ 9,110,092

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

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

The Animal Rescue League of Boston (the League) is an unwavering champion for animals in need, committed to keeping them safe and healthy in habitats and homes. A Massachusetts non-profit organization founded in 1899, the League provides high quality veterinary care, adoption, and rescue services while also confronting the root causes of animal cruelty and neglect through innovative community programs, police investigations, and public advocacy.

The League's affiliate, Anna Harris Smith Conservation Trust, Inc. (the Affiliate), held title to certain real estate adjacent to one of the League's previously owned properties, which was sold in 2015. The Affiliate was formed in March 2003, and its mission was to establish an animal refuge to promote conservation and protection of natural resources. The League and the Affiliate are related by common Board of Director membership. The Affiliate filed for dissolution in December 2016. On April 4, 2017 ARL received notice of approval of dissolution from the Commonwealth of Massachusetts Attorney General's Office.

The League and the Affiliate are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The League and the Affiliate are also exempt from state income taxes. Donors may deduct contributions made to the League and the Affiliate within the IRC requirements.

SIGNIFICANT ACCOUNTING POLICIES

The League and the Affiliate prepare their combined financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Combination

The combined financial statements include the net assets of the League and its Affiliate (collectively, ARL). All significant intercompany balances and transactions have been eliminated in the accompanying combined financial statements.

Combined Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenues and operating expenses in the accompanying combined statements of activities and changes in net assets. Peripheral or incidental transactions are reported as non-operating revenues (expenses). Non-operating revenues (expenses) include bequests, reimbursements, costs associated with investment in land, gains on property and equipment disposals, and investment activity (see Note 2).

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Equivalents

For purposes of the combined statements of cash flows, management considers all highly liquid investments held for operating purposes with initial maturities of three months or less to be cash and equivalents. Cash and equivalents include amounts held for operating purposes as well as funds held for capital spending fund and long-term land use and facilities planning purposes. In addition, given the seasonal nature of ARL's fundraising, amounts collected prior to year-end may fluctuate from year to year. Cash and cash equivalents held by investment managers are considered part of investments.

Allowance for Doubtful Accounts

ARL provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. ARL's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. There was no allowance for doubtful accounts as of December 31, 2017 and 2016.

Inventories

At December 31, 2016, inventories consisted primarily of pet supplies, medicine and uniforms held for internal use and for sale to ARL clients. In 2017, ARL decided to no longer capitalize pet supply and medicine inventory, given their immaterial nature. Program supplies expense for 2017 includes the cost of items previously capitalized, in addition to the actual supplies used in operations. ARL continues to maintain an inventory of uniforms. This inventory is accounted for at the lower of cost (as determined by the first-in, first-out (FIFO) method) or market.

Fair Value Measurements

ARL follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that ARL would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

ARL uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of ARL. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Cash and Equivalents

Cash and equivalents are considered Level 1 in the fair value hierarchy.

Investments

Investments are recorded in the combined financial statements at fair value. If an investment is directly held by ARL and an active market with quoted prices exists, the market price of an identical security is used to report fair value. ARL's interests in other investment funds such as marketable alternatives are generally reported at the net asset value (NAV) reported by fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of December 31, 2017 and 2016, ARL had no plans to sell investments at amounts different from NAV.

Under the provisions of Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, ARL is allowed to measure the fair value of certain investments using the value per share of the investments.

A description of the valuation methodologies used for assets measured at fair value is included in Note 2.

Investment in Land

The value of ARL's investment in land (see page 13) is determined using Level 3 inputs (independent appraisals or certifications of value by licensed professionals).

Beneficial Interest in Perpetual Trusts

The value of ARL's interests in perpetual trusts (see Note 7) is determined using Level 1 inputs (the fair value of trust assets) and Level 3 inputs (ARL's share of ownership in the trusts).

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and is considered Level 1 in the fair value hierarchy.

Property and Equipment and Depreciation

Property and equipment in excess of \$3,000 is recorded at cost at the date of acquisition or at fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives (see Note 6):

Land	N/A
Buildings and improvements	5 - 40 years
Equipment	3 - 20 years
Motor vehicles	5 - 7 years
Furniture and fixtures	7 years

ARL reviews its investment in property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the property. If the property and equipment are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property and equipment exceeds the fair value of such property and equipment. There were no impairment losses recognized in 2017 or 2016.

Investments

All investments are carried at fair value as non-current assets since all are invested for long-term purposes of ARL. ARL records its share of the realized activities as a return of capital or return on capital based upon the characterization determined by the fund manager or general partner. ARL records its share of unrealized gains and losses on the interests in partnerships as increases or decreases in the accumulated appreciation (depreciation) component of its investment accounts. Asset valuations are estimated as determined based on amounts reported by the partnership.

These estimated values may differ significantly from the values that would have been used had a ready market existed and those differences could be material. Certain other investment funds such as marketable alternatives are valued using NAV as a practical expedient to estimate the fair value. ARL values all other investments, which are publicly traded, using the quoted price in an active market (Level 1 input). Investment return consists of interest, dividends and realized and unrealized gains and losses. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Realized gains and losses on investment transactions are recorded based on the average cost method. Investment income of the endowments is available for specified or unspecified purposes based on donor instruction. Therefore, investment income is reflected in either unrestricted or temporarily restricted net assets in the accompanying combined statements of activities and changes in net assets.

Investments are subject to ongoing market fluctuations. The investments are held in several separately managed investment portfolios. An investment advisor assists ARL's Investment Committee in evaluation of sector allocations and performance.

The investments have been allocated among the unrestricted, temporarily restricted and permanently restricted net asset classes in the accompanying combined statements of financial position according to the absence or presence of donor restrictions (see Note 3) and *Uniform Prudent Management of Institutional Funds Act* (UPMIFA).

ARL believes that the reported amount of its investments is a reasonable estimate of fair value as of December 31, 2017 and 2016. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

Investment in Land

ARL had received a gift of parcels of land and buildings in Cataumet, Massachusetts. Management believed that the carrying value of the property, including holding costs, was recoverable from the developed use of the property or its disposition. During 2009, the Board of Directors formally designated the parcels of land as investment property to be added to ARL's Board Designated Net Assets - Funds Functioning as Endowment (see page 14). Costs associated with investment in land in the accompanying combined statements of activities and changes in net assets include \$9,435 and \$9,640 of depreciation expense for the years ended December 31, 2017 and 2016, respectively.

These were no write downs in carrying value recognized during fiscal years 2017 and 2016.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

ARL reports information regarding its combined financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted (see Note 3).

Unrestricted net assets include those net resources which have no external restrictions and are currently available for use by ARL. ARL has five classifications of unrestricted net assets as follows:

- **Working capital** - represent unrestricted resources available for general operating purposes.
- **Property and equipment** - represent resources available and amounts expended for property and equipment, net of accumulated depreciation.
- **Board designated - Funds Functioning as Endowment** have no external restrictions, but have designated limitations initiated by the Board of Directors (see Note 3). These limitations may be cancelled at the discretion of the Board.
- **Board designated - Capital Spending Fund** has designated limitations initiated by the Board of Directors (see Note 3). These limitations may be cancelled at the discretion of the Board.
- **Board designated - Long-term Land Use and Facilities Planning Fund** represents net assets designated by the Board of Directors to conduct assessments of future uses for land and facilities.

Temporarily restricted net assets represent amounts received or committed with donor restrictions which have not yet been expended for their designated purposes. Temporarily restricted net assets also include appreciation, if any, on permanently restricted net assets (endowment) in accordance with Massachusetts state law and ARL's spending policy (see investment return allocations and spending policy on page 16).

Temporarily restricted net assets include the following at December 31:

	<u>2017</u>	<u>2016</u>
Appreciation on permanently restricted endowments (see Note 3)	\$ 12,795,230	\$ 10,292,282
Purpose restricted	1,570,863	1,276,433
Ruth A. Safford Fund - capital (see Note 3)	44,035	38,619
Time restricted	<u>20,333</u>	<u>-</u>
	<u>\$ 14,430,461</u>	<u>\$ 11,607,334</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Permanently restricted net assets represent amounts which are restricted by donors against any expenditures of principal, but substantially all income earned on principal may be used for general and certain specified purposes. Accordingly, all such investment income has been reflected in the unrestricted or temporarily restricted net assets. Permanently restricted net assets also include ARL's beneficial interest in certain outside perpetual trusts (see Note 7).

Permanently restricted net assets include the following at December 31:

	<u>2017</u>	<u>2016</u>
Beneficial interest in perpetual trusts (see Note 7)	\$ 13,104,584	\$ 11,657,381
Corpus of donor endowment (see Note 3)	<u>7,561,667</u>	<u>7,555,667</u>
	<u>\$ 20,666,251</u>	<u>\$ 19,213,048</u>

Revenue Recognition

Public support includes annual appeal contributions, membership dues and other grants which are recognized as revenue when received or committed by the donor. ARL reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions. Service fee revenue is recorded as the services are provided. All other revenue is recognized as earned.

In addition to its known interest in certain outside perpetual trusts (see Note 7), ARL is and may be a named beneficiary of wills. The amounts to be received, if any, cannot be determined and may be revocable. Therefore, they are not reflected in the accompanying combined financial statements until ARL receives the distribution. ARL received \$2,727,045 and \$945,652 in bequests from several wills during 2017 and 2016, respectively. No bequest income was appropriated for operations for the years ended December 31, 2017 and 2016.

Expense Allocation

Expenses related directly to a program or a function are distributed to that program or function, while other expenses are allocated based upon management's estimate of the percentage attributable to each program or function.

Advertising

ARL expenses advertising costs as they are incurred.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Return Allocations and Spending Policy

Massachusetts follows UPMIFA. Subject to the intent of a donor, ARL may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by ARL.

Under ARL's investment policy, the Board of Directors appropriates for operations a percentage of the average market value of certain components of ARL's investment portfolio over the preceding twelve quarters. For the years ended December 31, 2017 and 2016, the Board approved appropriation was 4.75%. Transfers to the operating net assets, in accordance with this policy, are reflected in the combined statements of activities and changes in net assets.

ARL has an investment policy which, combined with the spending rate, attempts to provide a predictable stream of returns combined with asset protection. Endowment assets include those assets restricted by donors that ARL must hold in perpetuity. Under ARL's investment policy and spending rate, both approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

To satisfy its long-term rate-of-return objectives, ARL relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee, advised by a third party investment advisor, is responsible for selecting the investment managers of ARL's portfolio. The Investment Committee's strategy is to include an array of strategies and investment managers for the portfolio in order to maximize risk adjusted returns.

As a result of UPMIFA, ARL 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. This is regarded as the "historic dollar value" of the endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ARL.

Donated Services

During 2016, ARL was the recipient of donated legal services pertaining to certain remediation activity. The value of these services was \$355,268 for the year ended December 31, 2016 based upon the value assigned by the donor. This activity had no impact on the changes in net assets of ARL for the year ended December 31, 2016. There were no donated services in 2017.

Subsequent Events

Subsequent events have been evaluated through June 19, 2018, which is the date the combined financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combined financial statements.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Positions

ARL accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. ARL has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at December 31, 2017 and 2016. ARL's information returns are subject to examination by the Federal and state jurisdictions.

2. INVESTMENTS

The following tables set forth, by level within the fair value hierarchy (see Note 1), ARL's investments at fair value as of December 31:

Investment Type	2017				Total
	Level 1	Level 2	Level 3	Net Asset Value as Practical Expedient	
Global equities:					
Developed markets*	\$ 33,248,768	\$ -	\$ -	\$ 13,519,078	\$ 46,767,846
Emerging markets*	-	-	-	8,956,344	8,956,344
Total global equities	33,248,768	-	-	22,475,422	55,724,190
Hedge funds*	-	-	-	11,111,723	11,111,723
Global fixed income:					
Corporate*	4,590,054	-	-	3,969,905	8,559,959
Other investments:					
Money Market	2,639,123	-	-	-	2,639,123
Accrued investment income	3,179	-	-	-	3,179
Total	<u>\$ 40,481,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,557,050</u>	<u>\$ 78,038,174</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Investment Type	2016			Net Asset Value as Practical Expedient	Total
	Level 1	Level 2	Level 3		
Global equities:					
Developed markets*	\$ 21,093,612	\$ -	\$ -	\$ 16,576,126	\$ 37,669,738
Emerging markets*	<u>2,546,152</u>	<u>-</u>	<u>-</u>	<u>4,142,023</u>	<u>6,688,175</u>
Total global equities	23,639,764	-	-	20,718,149	44,357,913
Hedge funds*	-	-	-	10,123,188	10,123,188
Global fixed income:					
Corporate*	2,054,702	-	-	3,559,457	5,614,159
Other investments:					
Money Market	5,373,925	-	-	-	5,373,925
Accrued investment income	<u>1,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,495</u>
Total	<u>\$ 31,069,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,400,794</u>	<u>\$ 65,470,680</u>

* In accordance with ASU 2015-07, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

During 2017 and 2016, the following investment activity occurred:

	2017	2016
Net unrealized gains	\$ 8,906,356	\$ 4,884,475
Net realized gains (losses)	3,106,348	(1,500,104)
Interest and dividends	1,051,150	688,871
Investment fees	<u>(436,861)</u>	<u>(364,814)</u>
	12,626,993	3,708,428
Less - investment return appropriated for current operations (see Note 1)	<u>3,388,505</u>	<u>3,485,992</u>
Investment return reduced by appropriation for current operations	<u>\$ 9,238,488</u>	<u>\$ 222,436</u>

In addition to the investment activity outlined above, other investment activity included contributions and bequests and other operational transfers into and from the investment portfolio.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

3. NET ASSETS

Included in net assets at December 31, 2017 and 2016, are the following named funds:

Donor Restricted Endowments:

- **Ruth K. Howland Soles Fund** was established as a permanent endowment. Income from this fund is unrestricted.
- **Martha J. Atkins Fund** is an endowment recorded in permanently restricted net assets, with the income temporarily restricted for maintenance of a shelter on Cape Cod.
- **Grace M. Marks Fund** was established in 1993 through a bequest from the estate of Elliot P. Marks, with the income to be used in connection with the spaying or neutering of dogs and cats belonging to year-round residents of Barnstable County in Massachusetts. In 2008, the probate court in Barnstable County authorized an expansion of the bequest to include residents of southeastern Massachusetts. The balance of the fund is classified in permanently restricted net assets and the income is recorded as temporarily restricted net assets.
- **William L. and Eva Edgar Wright Fund** was established as a permanently restricted endowment. Income from this fund is unrestricted.
- **Ruth A. Safford Fund** was originally established with donor stipulations that the money be used for the construction of an animal shelter. Using these resources, ARL constructed the Safford Memorial Shelter in 1985. Unless needed for future qualifying capital projects, the remaining funds are to be considered a restricted endowment fund, with the investment income restricted for the operation and maintenance of the shelter. Since the fund may be used for future capital projects, the entire balance was considered temporarily restricted.
- **Selwyn A. Kudisch Fund** was established as a permanently restricted endowment. Income from this fund is temporarily restricted to support shelter dogs.

The balance of donor restricted endowments as of December 31, 2017 and 2016, is as follows:

<u>2017</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Other pooled donor endowments	\$ 9,877,165	\$ 5,951,733	\$ 15,828,898
Ruth K. Howland Soles Fund	1,321,358	1,117,080	2,438,438
Martha J. Atkins Fund	852,801	35,000	887,801
Grace M. Marks Fund	449,158	362,000	811,158
William L. and Eva Edgar Wright Fund	288,250	52,854	341,104
Selwyn A. Kudisch Fund	6,498	43,000	49,498
Ruth A. Safford Fund	44,035	-	44,035
	<u>\$ 12,839,265</u>	<u>\$ 7,561,667</u>	<u>\$ 20,400,932</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

3. NET ASSETS (Continued)

Donor Restricted Endowments: (Continued)

<u>2016</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Other pooled donor endowments	\$ 7,930,375	\$ 5,951,733	\$ 13,882,108
Ruth K. Howland Soles Fund	1,021,456	1,117,080	2,138,536
Martha J. Atkins Fund	743,611	35,000	778,611
Grace M. Marks Fund	349,394	362,000	711,394
William L. and Eva Edgar Wright Fund	246,298	52,854	299,152
Selwyn A. Kudisch Fund	1,148	37,000	38,148
Ruth A. Safford Fund	38,619	-	38,619
	<u>\$ 10,330,901</u>	<u>\$ 7,555,667</u>	<u>\$ 17,886,568</u>

Unrestricted Funds Functioning as Endowment:

- **Frederick W. Potter, Jr. Fund** was established for purposes of “the alleviation of and minimizing the suffering, human abuse and neglect of animal life, both domesticated and wild, which comes within ARL’s jurisdiction”. For accounting purposes, ARL considers these stipulations entirely within the mission of ARL and classifies the principal and income of these funds as unrestricted.

The balance of unrestricted funds functioning as endowment at December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Other operating and unnamed funds functioning as endowment	\$ 52,177,629	\$ 43,546,610
Frederick W. Potter, Jr. Fund	<u>5,256,799</u>	<u>4,610,267</u>
	<u>\$ 57,434,428</u>	<u>\$ 48,156,877</u>

Board Designated - Capital Spending Fund represents funds designated by the Board of Directors for capital needs with the approval of the Board of Directors. Transfers are made from this fund to reimburse the operating account for the acquisition of property and equipment.

During 2016, the Board of Directors approved transfers from the capital spending fund totaling \$1,543,327, which is net of a \$500,544 accrued transfer, and \$956,798 from funds functioning as endowment, to fund capital expenditures related to the Dedham shelter (see Note 6). The Board of Directors also approved transfers of \$340,235 and \$575,000 into the capital spending fund in 2016, representing funding for depreciation and the partial reimbursement for remediation costs, respectively (see below). The \$575,000 is reflected as other revenue in the accompanying combined statement of activities and changes in net assets for the year ended December 31, 2016.

The Board of Directors approved a transfer of \$406,262 into the capital spending fund in 2017, representing funding for depreciation. The Board of Directors also approved transfers from the capital spending fund totaling \$449,354 of which \$195,953 was executed in 2018 to reimburse 2017 capital spending.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

3. NET ASSETS (Continued)

Unrestricted Funds Functioning as Endowment: (Continued)

The activity pertaining to the capital spending fund for the years ended December 31, 2017 and 2016, is as follows:

Balance at December 31, 2015	\$ 1,513,983
Transfer from funds functioning as endowment (see page 22)	956,798
Transfer to occur in fiscal year 2017 from the partial reimbursement of remediation costs	575,000
Transfer to fund depreciation	340,235
Investment return, net of investment fees of \$10,721	106,664
Transfer to unrestricted – Dedham shelter construction	<u>(2,500,125)</u>
Balance at December 31, 2016	992,555
Transfer to fund depreciation	406,262
Investment return, net of investment fees of \$5,500	(3,260)
Transfer to occur in fiscal year 2018 to reimburse additional 2017 capital spending	(195,953)
Transfer to unrestricted to reimburse capital spending	<u>(253,401)</u>
Balance at December 31, 2017	<u>\$ 946,203</u>

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

3. NET ASSETS (Continued)

Changes in endowment net assets are as follows for the years ended December 31, 2017 and 2016:

	<u>Unrestricted</u>	<u>Donor Restricted</u>		<u>Total Donor</u> <u>Restricted</u>	<u>Total</u> <u>Endowment</u>
	<u>Board-</u> <u>Designated</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>		
Endowment net assets, December 31, 2015	\$ 50,990,842	\$ 10,218,278	\$ 7,555,667	\$ 17,773,945	\$ 68,764,787
Investment return:					
Net unrealized gains	3,405,497	1,281,340	-	1,281,340	4,686,837
Net realized losses	(1,044,303)	(392,927)	-	(392,927)	(1,437,230)
Investment income	466,179	174,926	-	174,926	641,105
Investment fees and other	(347,487)	-	-	-	(347,487)
Total investment return	2,479,886	1,063,339	-	1,063,339	3,543,225
Contributions and bequests	945,652	-	-	-	945,652
Other operational transfers	(86)	-	-	-	(86)
Transfer of cash to capital spending account	(956,798)	-	-	-	(956,798)
Transfer of cash to fund defined benefit pension plan	(2,767,343)	-	-	-	(2,767,343)
Appropriation of endowment assets for expenditure	(2,535,276)	(950,716)	-	(950,716)	(3,485,992)
Sub-total	(2,833,965)	112,623	-	112,623	(2,721,342)
Endowment net assets, December 31, 2016	48,156,877	10,330,901	7,555,667	17,886,568	66,043,445
Investment return:					
Net unrealized gains	6,218,430	2,374,184	-	2,374,184	8,592,614
Net realized gains	2,207,505	849,955	-	849,955	3,057,460
Investment income	885,064	337,309	-	337,309	1,222,373
Investment fees and other	(307,704)	(117,368)	-	(117,368)	(425,072)
Total investment return	9,003,295	3,444,080	-	3,444,080	12,447,375
Contributions and bequests	2,727,045	-	6,000	6,000	2,733,045
Appropriation of endowment assets for expenditure	(2,452,789)	(935,716)	-	(935,716)	(3,388,505)
Sub-total	9,277,551	2,508,364	6,000	2,514,364	11,791,915
Endowment net assets, December 31, 2017	\$ 57,434,428	\$ 12,839,265	\$ 7,561,667	\$ 20,400,932	\$ 77,835,360

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

4. ACCOUNTS, PLEDGES AND OTHER RECEIVABLES

Accounts, pledges and other receivables are expected to be received as follows at December 31:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 442,880	\$ 427,000
Due within two years	50,000	-
Due within three years	50,000	-
Due within four years	<u>50,000</u>	<u>-</u>
	592,880	427,000
Less - discount	7,475	-
Less - current portion	<u>442,880</u>	<u>427,000</u>
Accounts, pledges and other receivables, net of current portion and discount	<u>\$ 142,525</u>	<u>\$ -</u>

The pledges have been discounted using a 2.6% rate as of December 31, 2017. There was no discount on the outstanding pledges as of December 31, 2016.

One donor's balance represents approximately 34% of the total outstanding receivables at December 31, 2017.

5. PENSION PLANS

Defined Benefit Pension Plan

ARL had a contributory defined benefit pension plan (the Plan) providing benefits for substantially all employees, which was frozen effective May 31, 2012. The Plan provided pension benefits that are based upon the employees' compensation and years of service.

In 2015, ARL received approval from the Internal Revenue Service (IRS) and the Pension Benefit Guaranty Corporation (PBGC) to terminate and pay out benefits as outlined within the plan termination application. In connection with the Plan's termination, employees had the option to receive a lump-sum payment, rollover into an individual retirement account (IRA), or other qualified plan or the plan would purchase an annuity contract for the benefit of the employee. ARL contributed \$2,767,343 to the Plan in 2016 as part of its obligation to settle and terminate the Plan. All Plan assets were used to purchase guaranteed annuities, disbursed to other qualified plans, or disbursed as lump-sum payments to participants as of June 3, 2016. The last of the outstanding benefit payment checks to participants and/or beneficiaries cleared by October 31, 2016, at which time the Plan terminated.

Deferred Compensation Plan

During fiscal year 2013, ARL entered into a deferred compensation plan in accordance with Section 457(f) of the IRC with a designated member of ARL's senior management. Under the plan, ARL made available to the employee additional compensation within IRC limits. Employer contributions, if any, and related earnings vest upon the member completing three years of service. The employee may decide to defer additional compensation in accordance with IRC limits. Compensation expense under this agreement was \$18,000 for the years ended December 31, 2017 and 2016, and is included in salaries, payroll taxes and fringe benefits in the accompanying combined statements of functional expenses. At December 31, 2017 and 2016, \$277,674 and \$234,074, respectively, of deferred compensation is included in cash and equivalents and accounts payable and accrued expenses in the accompanying combined statements of financial position.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

5. PENSION PLANS (Continued)

403(b) Plan

ARL operates a voluntary defined contribution retirement plan in accordance with IRC Section 403(b). Employees may withhold contributions from their salaries on a tax-deferred basis within IRC limits. All employees are eligible for the plan. ARL makes contributions of up to 3% of an eligible employee's salary. Employer contributions vest in accordance with the plan. For the years ended December 31, 2017 and 2016, ARL made contributions of \$125,048 and \$106,299, respectively, to the plan, which are included in salaries, payroll taxes and fringe benefits in the accompanying combined statements of functional expenses.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 504,886	\$ 504,886
Buildings and improvements	10,058,536	9,858,807
Equipment	822,920	747,069
Motor vehicles	660,921	628,061
Furniture and fixtures	<u>97,423</u>	<u>94,098</u>
	12,144,686	11,832,921
Less - accumulated depreciation	<u>4,832,526</u>	<u>4,549,328</u>
	<u>\$ 7,312,160</u>	<u>\$ 7,283,593</u>

Depreciation expense on property and equipment was \$420,049 and \$331,017 for the years ended December 31, 2017 and 2016, respectively. Included in costs associated with investment in land in the accompanying combined statements of activities and changes in net assets was an additional \$9,435 and \$9,640 of depreciation expense for the years ended December 31, 2017 and 2016, respectively. For description of ARL's accounting policies for property and equipment and depreciation, see Note 1.

7. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

ARL has beneficial interests in several perpetual trusts held and invested by third party trustees for the benefit of various not-for-profit organizations. The principal, as well as annual gains or losses on the investments of each trust, are restricted in perpetuity. The interest and dividend income generated by the investments is distributed each year by trustees to the beneficiaries, and is reported by ARL as unrestricted income from trusts in the accompanying combined statements of activities and changes in net assets. ARL recognized \$581,161 and \$548,751 in distributions from trusts in 2017 and 2016, respectively.

In accordance with U.S. GAAP, ARL has recorded in the accompanying combined financial statements the fair value (measured as fair value of the trusts' assets based on ARL's share of ownership in each trust) as its beneficial interest in the trusts as permanently restricted net assets.

Gains and losses on investments are considered changes in the present value of expected cash flows and are recognized as changes in permanently restricted net assets. ARL's interest in these trusts, based on the fair value of trust assets (Level 1 input) and ARL's share of ownership in the trusts (Level 3 input), was estimated at \$13,104,584 and \$11,657,381 after recording an increase in the value of its interest of \$1,447,203 and \$159,131 for the years ended December 31, 2017 and 2016, respectively.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

7. BENEFICIAL INTEREST IN PERPETUAL TRUSTS (Continued)

The following table illustrates the changes in fair value of the beneficial interest in perpetual trusts:

Balance at December 31, 2015	\$ 11,498,250
Increase in value of interest	<u>159,131</u>
Balance at December 31, 2016	11,657,381
Increase in value of interest	<u>1,447,203</u>
Balance at December 31, 2017	<u>\$ 13,104,584</u>

8. LEASES

ARL leases space under various operating leases expiring through December 2020. The facility leases require ARL to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses. Rent expense under the facility leases was approximately \$195,000 and \$189,000 for the years ended December 31, 2017 and 2016, respectively, and is included in facility rentals in the accompanying combined statements of functional expenses.

Future minimum lease payments under these agreements for their remaining terms are as follows:

2018	\$ 186,164
2019	\$ 146,101
2020	\$ 15,460

Certain lease agreements contain additional renewal options, which have not been exercised. ARL is also responsible for certain operating costs as defined in the lease agreements.

ARL leases certain office equipment under various operating lease agreements expiring through June 2019. These agreements require quarterly payments ranging from \$327 to \$1,040. Expenses incurred under these agreements totaled \$7,033 and \$4,844 for the years ended December 31, 2017 and 2016, respectively. These expenses are included in repairs, maintenance and minor equipment, and office supplies and other, in the accompanying combined statements of functional expenses.

Future minimum lease payments under these agreements for their remaining terms are as follows:

2018	\$ 2,723
2019	\$ 1,069

ARL entered into a capital lease in 2017 for certain computer equipment with an aggregate cost of \$68,459. The imputed interest rate under this agreement is 4.25%. The lease expires in April 2020. The capital lease liability at December 31, 2017, is \$9,500.

ANIMAL RESCUE LEAGUE OF BOSTON AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2017 and 2016

9. CONCENTRATION OF CREDIT RISK

ARL maintains its operating cash balances in Massachusetts banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. ARL has not experienced any losses in such accounts. Management believes ARL is not exposed to any significant credit risk on its operating cash balances.

10. RECLASSIFICATIONS

Certain amounts in the 2016 combined financial statements have been reclassified to conform with the 2017 presentation.