

FIDELCO GUIDE DOG FOUNDATION, INC.

Independent Auditors' Report and
Financial Statements

June 30, 2018 and 2017

FIDELCO GUIDE DOG FOUNDATION, INC.

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June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Fidelco Guide Dog Foundation, Inc.

We have audited the accompanying financial statements of Fidelco Guide Dog Foundation, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 Fidelco Guide Dog Foundation, Inc. as of June 30, 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.

Whittlesey PC

Hartford, Connecticut
December 3, 2018

FIDELCO GUIDE DOG FOUNDATION, INC.

Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 635,458	\$ 999,230
Investments:		
Securities	12,512,456	13,259,828
Held in trust by others	1,332,547	1,259,370
Charitable remainder trusts	528,218	550,106
Land, building and equipment, net	5,999,206	6,321,691
Other assets	110,993	118,207
Contributions receivable	932,961	73,761
	\$ 22,051,839	\$ 22,582,193
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 242,138	\$ 249,514
Pension benefit obligation	1,037,994	1,185,400
DECD loan	221,074	249,448
Total liabilities	1,501,206	1,684,362
 Net assets:		
Unrestricted:		
Operations	(1,563,274)	(1,305,193)
Land, building and equipment	5,778,132	6,072,243
Board designated	2,450,128	3,446,911
Total unrestricted	6,664,986	8,213,961
Temporarily restricted	2,097,203	968,603
Permanently restricted	11,788,444	11,715,267
Total net assets	20,550,633	20,897,831
 Total liabilities and net assets	\$ 22,051,839	\$ 22,582,193

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

FIDELCO GUIDE DOG FOUNDATION, INC.

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Services				
Contributions	\$ 2,405,275	\$ 1,407,098	\$ -	\$ 3,812,373
Sales of products and services	106,371	-	-	106,371
Events	79,015	-	-	79,015
Other	61,850	-	-	61,850
Net assets satisfying purpose restrictions	256,610	(256,610)	-	-
Appropriation of endowment assets for operations	1,896,817	-	-	1,896,817
Total support and services	4,805,938	1,150,488	-	5,956,426
Operating Expenses				
Program services:				
Training and placement	2,645,577	-	-	2,645,577
Kennel costs	275,967	-	-	275,967
Operating facilities	490,244	-	-	490,244
Monitoring and public education	1,068,738	-	-	1,068,738
Total program services	4,480,526	-	-	4,480,526
Supporting services:				
Management and general	709,357	-	-	709,357
Fundraising and special events	620,117	-	-	620,117
Total supporting services	1,329,474	-	-	1,329,474
Total operating expenses	5,810,000	-	-	5,810,000
Change in net assets from operating activities	(1,004,062)	1,150,488	-	146,426
Other Changes				
Appropriation of endowment assets for operations	(1,896,817)	-	-	(1,896,817)
Gain from investments, net	900,034	(21,888)	73,177	951,323
Rental income, net	75,913	-	-	75,913
Pension benefits related changes other than net periodic pension cost	375,957	-	-	375,957
Total change in net assets	(1,548,975)	1,128,600	73,177	(347,198)
Net assets, beginning of year	8,213,961	968,603	11,715,267	20,897,831
Net assets, end of year	\$ 6,664,986	\$ 2,097,203	\$ 11,788,444	\$ 20,550,633

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

FIDELCO GUIDE DOG FOUNDATION, INC.

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Services				
Contributions	\$ 2,457,964	\$ 517,760	\$ -	\$ 2,975,724
Sales of products and services	118,432	-	-	118,432
Events	106,449	-	-	106,449
Other	86,676	-	-	86,676
Net assets satisfying purpose restrictions	354,820	(354,820)	-	-
Appropriation of endowment assets for operations	3,045,262	-	-	3,045,262
Total revenues	6,169,603	162,940	-	6,332,543
Operating Expenses				
Program services:				
Training and placement	2,608,513	-	-	2,608,513
Kennel costs	363,457	-	-	363,457
Operating facilities	427,555	-	-	427,555
Monitoring and public education	1,076,302	-	-	1,076,302
Total program services	4,475,827	-	-	4,475,827
Supporting services:				
Management and general	760,302	-	-	760,302
Fundraising and special events	612,209	-	-	612,209
Total supporting services	1,372,511	-	-	1,372,511
Total expenses	5,848,338	-	-	5,848,338
Change in net assets from operating activities	321,265	162,940	-	484,205
Other Changes				
Appropriation of endowment assets for operations	(3,045,262)	-	-	(3,045,262)
Gain from investments, net	1,544,796	50,768	113,628	1,709,192
Rental income, net	65,778	-	-	65,778
Pension benefits related changes other than net periodic pension cost	521,214	-	-	521,214
Total change in net assets	(592,209)	213,708	113,628	(264,873)
Net assets, beginning of year	8,806,170	754,895	11,601,639	21,162,704
Net assets, end of year	\$ 8,213,961	\$ 968,603	\$ 11,715,267	\$ 20,897,831

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

FIDELCO GUIDE DOG FOUNDATION, INC.

Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Total change in net assets	\$ (347,198)	\$ (264,874)
Adjustments to reconcile total change in net assets to net change in cash from operating activities:		
Depreciation	361,121	348,474
Net gain on investments in securities	(974,132)	(1,633,157)
Net gain on investments held in trust by others	(73,177)	(113,628)
Change in value of contributions receivable from remainder trust	21,888	(50,768)
Change in operating assets and liabilities:		
Other assets	7,214	67,065
Contribution receivable	(859,200)	(73,761)
Accounts payable and accrued liabilities	(7,376)	(202,839)
Pension benefit obligation	(147,406)	(282,460)
Net change in cash from operating activities	(2,018,266)	(2,205,948)
Cash Flows from Investing Activities		
Purchases of investments - securities	(568,163)	(1,032,686)
Proceeds from sale of investment securities	2,289,667	3,673,957
Proceeds from property held for sale	-	950,000
Purchases of land, building and equipment	(38,636)	(304,766)
Net change in cash from investing activities	1,682,868	3,286,505
Cash Flows from Financing Activities		
Proceeds from line of credit	445,000	410,000
Principal payments on line of credit	(445,000)	(810,000)
Principal payments on DECD loan	(28,374)	(27,804)
Net change in cash from financing activities	(28,374)	(427,804)
Net change in cash and cash equivalents	(363,772)	652,753
Cash and cash equivalents, beginning of year	999,230	346,477
Cash and cash equivalents, end of year	\$ 635,458	\$ 999,230
Supplemental Cash Flow Information		
Cash paid for interest	\$ 8,878	\$ 19,906

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

FIDELCO GUIDE DOG FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Fidelco Guide Dog Foundation, Inc. (“Fidelco”) is incorporated as a charitable and educational organization under the laws of the State of Connecticut. Its principal purposes include:

- Promoting increased independence and mobility to men and women who are blind by providing them with the highest quality guide dogs.
- Providing educational services to blind clients utilizing Fidelco guide dogs over the working life of their animals.
- Training and “in-community” placement of the highest quality guide dogs.
- Maintaining Fidelco guide dog performance to the highest professional level attainable.
- Continuing to refine the breed of the Fidelco German Shepherd dog through genetic and clinical methods.
- Developing improved training methods.
- Educating the public on how blind persons can lead independent and productive lives through the use of a guide dog.

Basis of Presentation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. An estimate that is particularly critical and is susceptible is the valuation for expenses and liabilities for pension benefits. Actual results could differ from those estimates.

The accompanying financial statements have been prepared on the accrual basis of accounting. The financial statements report information regarding Fidelco's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

- | | |
|-------------------------|--|
| Unrestricted: | Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. |
| Temporarily Restricted: | Net assets whose use by Fidelco is subject to explicit donor-imposed stipulations that can be fulfilled by actions of Fidelco or that expire by the passage of time. |
| Permanently Restricted: | Net assets subject to explicit donor-imposed stipulations that the principal be invested in perpetuity and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted. |

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - Fidelco considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments are reported at fair value and reflect any gain or loss in the statements of activities and changes in net assets. Gains and losses are considered unrestricted unless restricted by donor stipulation or law. Non-monetary investments received as gifts are immediately sold and recorded at the realized value.

Fair Value Measurements - Fair value is based on exit price in the principal market for the asset or liability being measured at fair value, and is the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. A three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities is described as follows:

Level 1 - Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Assets and liabilities whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

Endowment Assets - Fidelco's endowment funds are subject to the *Connecticut Uniform Prudent Management of Institutional Funds Act*, which includes enhanced disclosures for the endowment funds.

Fidelco adopted a spending policy designed to support Fidelco's mission. The policy provides funds for current operating needs while allowing growth of principal to support future operations. The use of funds is subject to approval by the Board of Directors.

Fidelco's policy is to present board designated investment income and permanently restricted investments held in trust income distributions earned during the year with unrestricted net assets. Currently, none of Fidelco's investment earnings or permanently restricted investments held in trust income distributions are subject to temporary restrictions.

Subsequent Events - In connection with the preparation of the financial statements, management has evaluated events for footnote disclosure or adjustments required in its financial statements for the year then ended June 30, 2018 through December 3, 2018, the date the financial statements were available to be issued.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions are recognized when the donor makes a promise to give to Fidelco that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Fidelco records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of the gift using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. The contribution receivable consists of one multi-year pledge from a trust, which was discounted at 6% with a balance of \$67,692 and \$62,747 as of June 30, 2018 and 2017 and a total of \$137,433 will be received over a 23 year period which began in 2012. Fidelco will receive payments of \$27,487 during the years ending June 30, 2020, 2025, 2030 and 2035. Contribution receivable also consists of approximately \$835,000 that was bequeathed to Fidelco during 2018.

Fidelco is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by a probate court and the proceeds are measureable.

Charitable Remainder Trusts - Fidelco received contributions in the form of charitable remainder trusts. Under the terms of the trusts, Fidelco is to receive the assets of each trust upon the death of the donor while the donor is to receive the income from the trust investments for life. Fidelco is not the Trustee of the trusts. Upon notification of each trust, Fidelco records receipt of the contribution at fair market value discounted for the present value of the estimated future payments based on the life expectancy of each donor and the expected rate of return on trust assets. Life expectancy is based on published actuarial tables. Should the donor surpass the projection per the actuarial table, the contribution is carried at the current fair market value. Changes in the value of each trust at the financial statement date were adjusted for appreciation or depreciation in trust assets and the updated life expectancy of each donor.

Tax Exempt Status - The Internal Revenue Service (“IRS”) determined that Fidelco is exempt from Federal income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Consequently, Fidelco is exempt from state income taxes and no provision for income taxes has been made in the accompanying financial statements.

Land, Building and Equipment - Fidelco capitalizes all expenditures for building and equipment having a useful life of greater than one year. Purchased buildings and equipment are recorded at cost. Donated building and equipment are recorded at the approximate fair value at the date of donation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The building has a life of forty (40) years, improvements range from five (5) to twenty (20) years, and equipment and vehicles range from three (3) to six (6) years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenditures for repairs and maintenance 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 reflected in income for the period.

Gifts of Long-Lived Assets - Fidelco reports gifts of land, building and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Upon expiration of donor stipulations, Fidelco sells the long-lived assets or places the long-lived assets in service.

Contributed Products and Services - Contributed products and services are recorded at their estimated values at date of receipt. The majority of Fidelco's contributed products and services relate to various advertising media and services received in connection with promoting Fidelco and its principal fund raising activities.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

Pension Plan - Fidelco maintains a contributory defined benefit pension plan covering all full-time employees. It is Fidelco's policy to fund pension costs accrued.

Concentration of Credit Risk - The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Fidelco invests in various debt and equity securities. These investment securities are recorded at market value. Accordingly, the investment securities can fluctuate because of interest rates, reinvestment, credit and other risks, depending on the nature of the specific investment; therefore, it is at least reasonably possible that these factors will result in changes in the value of Fidelco's investments, which could materially affect amounts reported in the financial statements.

Major Contributors - Contributions received from major contributors were as follows for the years ended June 30, 2018 and 2017:

Donor	2018		2017	
	Contribution	Percent of Total	Contribution	Percent of Total
A	\$ 834,755	21.9%	\$ -	0.0%
B	199,126	5.2%	-	0.0%
C	155,000	4.1%	113,750	3.8%
D	150,448	3.9%	326,250	11.0%
E	135,000	3.5%	135,000	4.5%
F	64,624	1.7%	71,500	2.4%
G	-	0.0%	71,387	2.4%
	<u>\$ 1,538,953</u>	<u>40.3%</u>	<u>\$ 717,887</u>	<u>24.1%</u>

NOTE 2 – FAIR VALUE MEASUREMENTS

The following table details the financial instruments carried at fair value as of June 30, 2018 and 2017 and indicates the fair value hierarchy of the valuation techniques used to determine fair value:

	2018			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity securities and mutual funds	\$ 8,344,596	\$ -	\$ -	\$ 8,344,596
Debt securities and mutual funds	-	4,078,009	-	4,078,009
REIT	83,241	-	-	83,241
Government mortgage backed securities	-	6,610	-	6,610
	<u>8,427,837</u>	<u>4,084,619</u>	<u>-</u>	<u>12,512,456</u>
Held in trust by others	1,031,385	301,162	-	1,332,547
Charitable remainder trusts	356,559	171,659	-	528,218
	<u>\$ 9,815,781</u>	<u>\$ 4,557,440</u>	<u>\$ -</u>	<u>\$ 14,373,221</u>
	2017			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity securities and mutual funds	\$ 10,229,597	\$ -	\$ -	\$ 10,229,597
Debt securities and mutual funds	-	2,936,202	-	2,936,202
REIT	85,645	-	-	85,645
Government mortgage backed securities	-	8,384	-	8,384
	<u>10,315,242</u>	<u>2,944,586</u>	<u>-</u>	<u>13,259,828</u>
Held in trust by others	879,418	379,952	-	1,259,370
Charitable remainder trusts	376,273	173,833	-	550,106
	<u>\$ 11,570,933</u>	<u>\$ 3,498,371</u>	<u>\$ -</u>	<u>\$ 15,069,304</u>

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the reporting period as well as assets that are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

NOTE 3 – ENDOWMENT ASSETS

The reconciliation of Fidelco’s endowment assets by net asset category is as follows for the years ending June 30, 2018 and 2017:

	2018			
	Board			Total
	Designated Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance, beginning of year	\$ 3,446,911	\$ 968,603	\$ 11,715,267	\$ 16,130,781
Investment income	326,232	-	-	326,232
Realized gains/(losses)	(97)	(21,888)	-	(21,985)
Unrealized gains	653,730	-	73,177	726,907
Management fees	(79,831)	-	-	(79,831)
Contributions	-	1,407,098	-	1,407,098
Appropriation of endowment assets for expenditures	(1,896,817)	(256,610)	-	(2,153,427)
Balance, end of year	<u>\$ 2,450,128</u>	<u>\$ 2,097,203</u>	<u>\$ 11,788,444</u>	<u>\$ 16,335,775</u>
	2017			
Balance, beginning of year	\$ 4,947,377	\$ 754,895	\$ 11,601,639	\$ 17,303,911
Investment income	336,412	-	-	336,412
Realized gains/(losses)	(53,536)	50,768	-	(2,768)
Unrealized gains	1,354,900	-	113,628	1,468,528
Management fees	(92,980)	-	-	(92,980)
Contributions	-	517,760	-	517,760
Appropriation of endowment assets for expenditures	(3,045,262)	(354,820)	-	(3,400,082)
Balance, end of year	<u>\$ 3,446,911</u>	<u>\$ 968,603</u>	<u>\$ 11,715,267</u>	<u>\$ 16,130,781</u>

NOTE 4 – LAND, BUILDING AND EQUIPMENT

Balances of major classes of depreciable assets (recorded at cost) and total accumulated depreciation are as follows as of June 30, 2018 and 2017:

	2018	2017
Land and improvements	\$ 1,199,642	\$ 1,199,642
Building and improvements	8,308,732	8,286,622
Equipment and vehicles	1,309,900	1,415,239
	<u>10,818,274</u>	<u>10,901,503</u>
Less: accumulated depreciation	(4,819,068)	(4,579,812)
	<u>\$ 5,999,206</u>	<u>\$ 6,321,691</u>

NOTE 5 – NET ASSETS

Temporarily restricted net assets are comprised of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Charitable remainder trust	\$ 528,218	\$ 550,106
Contributions receivable	921,961	62,247
Guide dog placement program for veterans	555,031	356,250
Partner with vision	60,000	-
Various programs	31,993	-
	<u>\$ 2,097,203</u>	<u>\$ 968,603</u>

Net assets were released from restrictions by incurring expenses satisfying the following purpose restrictions for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Guide dog placement program for veterans	\$ 159,850	\$ 229,820
Partner with vision	90,000	100,000
Various programs	28,648	25,000
	<u>\$ 278,498</u>	<u>\$ 354,820</u>

Permanently restricted net assets are comprised of the following as of June 30, 2018 and 2017:

Permanently Restricted

	<u>2018</u>	<u>2017</u>
Successor guide dog program	\$ 7,800,000	\$ 7,800,000
First time placement program	1,195,897	1,195,897
Investments - held in trust by others	1,332,547	1,259,370
Puphouse maintenance program	650,000	650,000
Apprentice program	300,000	300,000
Guide dog placement program	250,000	250,000
Guide dog training program	250,000	250,000
Endowment fund - other	10,000	10,000
	<u>\$ 11,788,444</u>	<u>\$ 11,715,267</u>

Investments held in trust by others represent the market value of Fidelco's rights to split-interest agreements. All of Fidelco's split-interest agreement assets are classified as permanently restricted funds because they are perpetual trusts. The present value of the future payments is estimated to equal the current market value of these investments, and they are recorded by Fidelco at this value.

NOTE 6 – PENSION PLAN

Fidelco has a defined benefit pension plan covering substantially all employees who meet the eligibility requirements of the pension plan. The pension plan contribution is 2.3% of pay. Pension benefits are based on years of credited service and employees' average annual earnings, as defined in the plan. Fidelco's funding policy is to make the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

NOTE 6 – PENSION PLAN (CONTINUED)

The following table sets forth the plan's funded status and amount recognized in the financial statements as of and for the years ended June 30, 2018 and 2017, using a measurement date of the same date:

	<u>2018</u>	<u>2017</u>
Change in projected benefit obligations:		
Present value, beginning of year	\$ 2,936,896	\$ 2,970,768
Service cost	159,904	161,414
Interest cost	116,201	108,772
Actuarial (gain)/loss	(128,409)	(244,874)
Benefits paid	<u>(58,371)</u>	<u>(59,184)</u>
Present value, end of year	<u>3,026,221</u>	<u>2,936,896</u>
Change in plan assets:		
Fair value (level 1), beginning of year	1,751,496	1,502,908
Actual return on assets, less expense charges	126,173	177,306
Contributions	168,929	130,466
Benefits paid	<u>(58,371)</u>	<u>(59,184)</u>
Fair value (level 1), end of year	<u>1,988,227</u>	<u>1,751,496</u>
Unfunded status of pension benefits	<u>\$ 1,037,994</u>	<u>\$ 1,185,400</u>
Components of net periodic pension benefits cost:		
Service cost	\$ 159,904	\$ 161,414
Interest cost	116,201	108,772
Expected return on plan assets	(107,576)	(91,850)
Amortization of unrecognized net loss	<u>228,951</u>	<u>60,418</u>
Net periodic pension benefit cost	<u>\$ 397,480</u>	<u>\$ 238,754</u>

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost were as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Weighted average discount rate	4.20%	4.00%
Assumed rate of future compensation increase	3.00%	3.00%
Expected long-term rate of return on plan assets	6.00%	6.00%

The expected long-term rate of return on the plan assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio. Asset allocation is determined by the Board of Directors.

NOTE 6 – PENSION PLAN (CONTINUED)

All pension plan assets consist of mutual funds and are valued utilizing Level 1 inputs, which consist of unadjusted quoted prices in active markets for identical assets. Pension plan assets are categorized as follows at June 30, 2018 and 2017:

	2018	2017
Asset category:		
Cash and cash equivalents	2%	2%
Debt securities	30%	34%
Equity securities	62%	64%
Exchange traded funds	6%	0%
	100%	100%

The following future pension benefits are expected to be paid:

For the year ended June 30, 2019	\$ 91,000
2020	94,000
2021	119,000
2022	145,000
2023	144,000
Five years thereafter	819,000

NOTE 7 – LINE OF CREDIT

Fidelco has a \$1,500,000 line of credit, which is secured by investments and guaranteed by Fidelco. The interest rate is set at the bank's prime rate less 1% (3.25% at June 30, 2018). The line of credit matures on August 29, 2019. At June 30, 2018 and 2017, there was \$-0- outstanding on the line of credit.

NOTE 8 – DECD LOAN

During 2015, Fidelco entered into a loan agreement with the State of Connecticut Department of Economic and Community Development for \$300,000. Monthly installments are made of \$2,764 until maturity in 2025, with interest charged at rate of 2% per annum. The loan was used to purchase equipment which is used as collateral for the loan.

The following minimum principal payments are required:

For the year ending June 30, 2019	\$ 28,954
2020	29,537
2021	30,152
2022	30,768
2023	31,346
Thereafter	70,317
	\$ 221,074