

Humane Society of Greater Dayton

Financial Statements

December 31, 2017 and 2016



FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors

Humane Society of Greater Dayton

Table of Contents

December 31, 2017 and 2016

Independent Auditor's Report	Page 1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 16



FLAGEL HUBER FLAGEL

Certified Public Accountants | Business Advisors

Independent Auditor's Report

To the Board of Directors
Humane Society of Greater Dayton

We have audited the accompanying financial statements of Humane Society of Greater Dayton (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 audits 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 Humane Society of Greater Dayton as of December 31, 2017 and 2016, 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.

Certified Public Accountants
Dayton, Ohio
November 14, 2018

Humane Society of Greater Dayton
Statements of Financial Position
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,389,611	\$ 1,088,203
Pledges receivable - capital campaign, net	239,799	33,333
Grant receivable	13,000	0
Investments	1,052,605	857,283
Prepaid expenses	4,685	2,195
Total Current Assets	<u>2,699,700</u>	<u>1,981,014</u>
Other Assets		
Pledges receivable - capital campaign, net	383,006	31,667
Property and equipment, net	726,451	712,467
Deposits	190	190
Investments - permanently restricted	148,416	148,416
Total Other Assets	<u>1,258,063</u>	<u>892,740</u>
Total Assets	<u>\$ 3,957,763</u>	<u>\$ 2,873,754</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 126,838	\$ 93,918
Accrued expenses	38,344	26,677
Total Current Liabilities	<u>165,182</u>	<u>120,595</u>
Net Assets		
Unrestricted:		
Undesignated	2,622,904	2,332,956
Board designated - building	44,845	44,845
Board designated - endowment	54,392	54,392
Total unrestricted net assets	<u>2,722,141</u>	<u>2,432,193</u>
Temporarily restricted	922,024	172,550
Permanently restricted	148,416	148,416
Total Net Assets	<u>3,792,581</u>	<u>2,753,159</u>
Total Liabilities and Net Assets	<u>\$ 3,957,763</u>	<u>\$ 2,873,754</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Activities
For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions	\$ 1,064,668	\$ 0	\$ 0	\$ 1,064,668
Contributions - capital campaign, net	0	760,224	0	760,224
Special events revenue	287,611	0	0	287,611
Grant revenue	10,500	13,000	0	23,500
In-kind contributions	17,896	0	0	17,896
Direct mail contributions	551,422	0	0	551,422
Adoption fees	124,047	0	0	124,047
Owner release fees	14,563	0	0	14,563
Service fees	85,793	0	0	85,793
Sales (net of cost of sales totaling \$8,915)	6,722	0	0	6,722
Miscellaneous income	14,077	0	0	14,077
Net assets released from restrictions	23,750	(23,750)	0	0
Total support and revenue	<u>2,201,049</u>	<u>749,474</u>	<u>0</u>	<u>2,950,523</u>
Operating Expenses				
Program services	1,532,978	0	0	1,532,978
Management and general	219,381	0	0	219,381
Fundraising	304,260	0	0	304,260
Total operating expenses	<u>2,056,619</u>	<u>0</u>	<u>0</u>	<u>2,056,619</u>
Operating Change				
in Net Assets	<u>144,430</u>	<u>749,474</u>	<u>0</u>	<u>893,904</u>
Other Revenue (Expense)				
Interest and dividends	37,332	0	0	37,332
Realized gain on investments	79,078	0	0	79,078
Unrealized gain on investments	37,612	0	0	37,612
Investment fees	(8,504)	0	0	(8,504)
Total other revenue (expense)	<u>145,518</u>	<u>0</u>	<u>0</u>	<u>145,518</u>
Change in Net Assets	289,948	749,474	0	1,039,422
Net Assets - beginning of year	<u>2,432,193</u>	<u>172,550</u>	<u>148,416</u>	<u>2,753,159</u>
Net Assets - end of year	<u>\$ 2,722,141</u>	<u>\$ 922,024</u>	<u>\$ 148,416</u>	<u>\$ 3,792,581</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions	\$ 1,157,758	\$ 0	\$ 0	\$ 1,157,758
Contributions - capital campaign	0	148,800		148,800
Special events revenue	222,664	0	0	222,664
Grant revenue	40,799	26,250	0	67,049
In-kind contributions	17,532	0	0	17,532
Direct mail contributions	560,022	0	0	560,022
Adoption fees	117,196	0	0	117,196
Owner release fees	11,755	0	0	11,755
Service fees	76,379	0	0	76,379
Sales (net of cost of sales totaling \$1,761)	11,911	0	0	11,911
Miscellaneous income	18,546			18,546
Net assets released from restrictions	174,864	(174,864)	0	0
Total support and revenue	<u>2,409,426</u>	<u>186</u>	<u>0</u>	<u>2,409,612</u>
Operating Expenses				
Program services	1,443,586	0	0	1,443,586
Management and general	250,850	0	0	250,850
Fundraising	259,490	0	0	259,490
Total operating expenses	<u>1,953,926</u>	<u>0</u>	<u>0</u>	<u>1,953,926</u>
Operating Change in Net Assets				
	<u>455,500</u>	<u>186</u>	<u>0</u>	<u>455,686</u>
Other Revenue (Expense)				
Interest and dividends	32,922	0	0	32,922
Realized gain on investments	7,494	0	0	7,494
Unrealized gain on investments	24,077	0	0	24,077
Investment fees	(7,999)	0	0	(7,999)
Total other revenue (expense)	<u>56,494</u>	<u>0</u>	<u>0</u>	<u>56,494</u>
Change in Net Assets	511,994	186	0	512,180
Net Assets - beginning of year	<u>1,920,199</u>	<u>172,364</u>	<u>148,416</u>	<u>2,240,979</u>
Net Assets - end of year	<u>\$ 2,432,193</u>	<u>\$ 172,550</u>	<u>\$ 148,416</u>	<u>\$ 2,753,159</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 609,454	\$ 105,940	\$ 78,861	\$ 794,255
Payroll taxes	56,152	3,468	5,807	65,427
Health insurance	15,782	335	3,299	19,416
Uniforms	3,472	0	0	3,472
Employee development	16,242	3,091	0	19,333
Animal food	26,771	0	0	26,771
Animal supplies	3,361	0	0	3,361
Veterinarian services	121,543	0	0	121,543
Veterinarian supplies	119,482	0	0	119,482
Auto expense	9,095	0	10	9,105
Facility maintenance	34,463	0	0	34,463
Depreciation	79,485	0	0	79,485
Liability insurance	17,679	0	0	17,679
Telephone	36,409	0	0	36,409
Utilities	50,067	0	0	50,067
Special events	124,631	0	72,238	196,869
General printing	1,461	0	5,844	7,305
Advertising	9,243	0	6,162	15,405
Postage	7,739	2,580	2,580	12,899
Payroll service	6,078	1,056	786	7,920
Professional services	114,648	58,219	38,216	211,083
Licenses/permits	2,817	313	0	3,130
Capital campaign costs	0	0	81,177	81,177
Rent	22,360	0	0	22,360
Supplies	12,753	35,708	2,551	51,012
Bank charges	17,643	3,067	2,283	22,993
Technology	687	0	0	687
Organization dues	6,057	0	0	6,057
Meals and entertainment	0	4,066	2,710	6,776
Newsletter	6,827	0	0	6,827
Miscellaneous	577	1,538	1,736	3,851
Total operating expenses	<u>\$ 1,532,978</u>	<u>\$ 219,381</u>	<u>\$ 304,260</u>	<u>\$ 2,056,619</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 476,590	\$ 77,483	\$ 73,894	\$ 627,967
Payroll taxes	49,459	7,851	5,347	62,657
Health insurance	8,903	670	2,490	12,063
Uniforms	1,953	0	0	1,953
Employee development	6,290	6,152	824	13,266
Animal food	20,487	0	0	20,487
Animal supplies	9,458	0	0	9,458
Veterinarian services	199,517	0	0	199,517
Veterinarian supplies	113,971	0	0	113,971
Auto expense	4,118	0	0	4,118
Facility maintenance	47,077	0	0	47,077
Depreciation	67,186	0	0	67,186
Liability insurance	23,016	0	0	23,016
Telephone	42,057	0	0	42,057
Utilities	49,458	0	0	49,458
Special events	78,945	0	45,932	124,877
General printing	1,599	0	6,397	7,996
Advertising	10,762	0	7,174	17,936
Postage	7,375	2,458	2,458	12,291
Payroll service	5,269	1,052	695	7,016
Professional services	128,198	84,415	42,733	255,346
Licenses/permits	1,985	220	0	2,205
Capital campaign costs	0	0	62,002	62,002
Rent	18,352	0	0	18,352
Supplies	17,953	53,795	3,590	75,338
Bank charges	17,115	3,418	2,256	22,789
Technology	4,385	0	0	4,385
Organization dues	14,964	0	0	14,964
Meals and entertainment	0	3,853	2,569	6,422
Newsletter	10,254	1,327	0	11,581
Miscellaneous	6,890	8,156	1,129	16,175
Total operating expenses	<u>\$ 1,443,586</u>	<u>\$ 250,850</u>	<u>\$ 259,490</u>	<u>\$ 1,953,926</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,039,422	\$ 512,180
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,485	67,186
Realized gain on investments	(79,078)	(7,494)
Unrealized gain on investments	(37,612)	(24,077)
Donated securities	(14,781)	0
Changes in assets and liabilities:		
Pledges receivable - capital campaign, net	(557,805)	(65,000)
Grant receivable	(13,000)	0
Prepaid expenses	(2,490)	7,315
Accounts payable	32,920	77,179
Accrued expenses	11,667	4,333
Net Cash Provided by Operating Activities	<u>458,728</u>	<u>571,622</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(93,469)	(73,206)
Proceeds from sale of investments	797,420	375,862
Purchase of investments	(861,271)	(401,381)
Net Cash Used in Investing Activities	<u>(157,320)</u>	<u>(98,725)</u>
Change in Cash	301,408	472,897
Cash and Cash Equivalents - beginning of year	<u>1,088,203</u>	<u>615,306</u>
Cash and Cash Equivalents - end of year	<u><u>\$ 1,389,611</u></u>	<u><u>\$ 1,088,203</u></u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

1. Organization

The Humane Society of Greater Dayton (the Society) is a not-for-profit organization that has been serving the Dayton, Ohio area since 1902. Since its inception, the Society's respect for animals has been unconditional. The Society is in the business of saving animal lives, and in 2010, became a "no-kill" facility. As the area's oldest, most established animal-advocate center, the Society works with and helps all types of animals. Services include pet adoptions, spay & neuter services, cruelty prevention and investigations, school education programs, offsite adoptions, community outreach programs, information referral, lost and found pet directory, education outreach, pet therapy and the sale of dog licenses. Each program is designed to help create a community where animals are valued, and life is enhanced through relationships with pets.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of the financial statements. These policies conform to accounting principles generally accepted in the United States of America for not-for-profit organizations.

Basis of Accounting

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 for not-for-profit organizations.

Basis of Presentation

The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. A description of each class as it pertains to the Society is as follows:

Unrestricted net assets represent resources that are available to support the Society's operations. The board has designated a portion of the unrestricted net assets for use in constructing a new building and as an endowment.

Temporarily restricted net assets represent resources resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Society pursuant to those stipulations.

Permanently restricted net assets represent resources resulting from contributions or other inflows of assets whose use by the Society is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Society pursuant to those stipulations.

Cash and Cash Equivalents

For purposes of the statements of cash flows the Society considers all checking accounts, money market accounts, and certificates of deposit to be cash equivalents.

Concentration of Credit Risk

The Society maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (Continued)

Pledges Receivable - Capital Campaign

Pledges receivable represent unconditional promises to give from donors as part of the Society's capital campaign and have been restricted for the construction of a new building. These pledges are recognized when received at the net present value of their estimated future cash flows. The carrying amount of these receivables are reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. See Note 3.

Investments

Investments are stated at fair value in the statements of financial position. Investment return includes interest, dividends, realized and unrealized gains and losses, and other investment income and is included in the statements of activities.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives ranging from five to forty years.

Impairment of Long-Lived Assets

The Society reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended December 31, 2017 and 2016.

Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services and Materials

Donated services are recognized as contributions only if the services create or enhance nonfinancial assets or require specialized skills, are performed by people possessing those skills, and would otherwise be purchased by the Society. Donated services and materials are recorded as contributions at their fair value at the date of donation. The value of substantial donated volunteer services has not been reflected in the accompanying financial statements since these criteria are not met.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs incurred during 2017 and 2016 were \$15,405 and \$17,936, respectively.

Tax Status

A favorable determination letter has been obtained from the Internal Revenue Service exempting the Society from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is included in these statements. However, any income from certain activities not directly related to the Society's tax-exempt purpose may be subject to taxation as unrelated business income.

The Society determines the recognition of uncertain tax positions, if applicable, that may subject the entity to unrelated business income tax necessary by applying a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with tax authorities. The Society does not have any materially uncertain tax positions, including any position that would place the Society's exempt status in jeopardy at December 31, 2017. The Society believes it is no longer subject to income tax examination for tax years prior to 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts for the prior year have been reclassified to conform with the current year's presentation. These reclassifications did not result in any changes to net assets.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

3. Pledges Receivable - Capital Campaign

At December 31, 2017 and 2016, the Society had received unconditional promises to give totaling \$684,555 and \$65,000, respectively. Pledges receivable consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Expected to be collected in:		
Less than one year	\$ 239,799	\$ 33,333
One to five years	444,756	31,667
Total	684,555	65,000
Less: discounts to net present value	(27,522)	0
Less: allowance for uncollectible amounts	(34,228)	0
Net	<u>\$ 622,805</u>	<u>\$ 65,000</u>

Pledges receivable due in more than one year are discounted at the applicable federal rate, which was 2.6% as of December 31, 2017. The discount as of December 31, 2016 was not material to the financial statements and therefore was not recorded.

4. Property and Equipment

The following is a summary of property and equipment at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Estimated Life in Years</u>
Building	\$ 1,093,631	\$ 1,093,093	40
Building improvements	186,120	166,791	10 - 15
Community dog park	158,911	156,926	15
Animal vehicles	87,148	87,148	5
Furniture and equipment	259,901	212,874	7 - 10
Construction in progress	38,342	13,753	NA
Total	1,824,053	1,730,585	
Less accumulated depreciation	(1,097,602)	(1,018,118)	
Net book value	<u>\$ 726,451</u>	<u>\$ 712,467</u>	

Depreciation expense for the years ended December 31, 2017 and 2016 was \$79,485 and \$67,186 respectively.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

5. Investments

The Society's investments as of December 31, 2017 are comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Money market accounts	\$ 56,275	\$ 56,275	\$ 0
Equity securities	571,422	686,580	115,158
Fixed income securities	364,139	370,190	6,051
Alternative strategies securities	0	0	0
Alternative investments	24,978	27,069	2,091
Real assets securities	53,408	60,907	7,499
	<u>\$ 1,070,222</u>	<u>\$ 1,201,021</u>	<u>\$ 130,799</u>

The Society's investments as of December 31, 2016 are comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Money market accounts	\$ 57,784	\$ 57,784	\$ 0
Equity securities	428,967	502,010	73,043
Fixed income securities	323,271	324,956	1,685
Alternative strategies securities	30,000	30,132	132
Alternative investments	18,340	24,794	6,454
Real assets securities	54,150	66,023	11,873
	<u>\$ 912,512</u>	<u>\$ 1,005,699</u>	<u>\$ 93,187</u>

A summary of investment return includes the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Unrealized gains	\$ 37,612	\$ 24,077
Realized gains	79,078	7,494
Interest and dividend income	37,332	32,922
Investment fees	(8,504)	(7,999)
	<u>\$ 145,518</u>	<u>\$ 56,494</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Cash – restricted for new building	\$ 286,219	\$ 107,550
Grant receivable restricted for specific programs	13,000	0
Pledges receivable – restricted for new building	622,805	65,000
Total	<u>\$ 922,024</u>	<u>\$ 172,550</u>

Temporarily restricted net assets for which donor restrictions were accomplished during 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cruelty rescue	\$ 10,000	\$ 0
General spay/neuter expenses	12,750	2,750
Project Next Step	0	125,000
Trap Neuter Release (TNR)	0	11,400
Shelter	1,000	35,714
	<u>\$ 23,750</u>	<u>\$ 174,864</u>

7. Endowment Funds

The Society's endowment consists of donated funds which were contributed to provide support to the organization. Its endowment includes donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Society follows the State Prudent Management of Institutional Funds Act (SPMIFA) and its own governing documents. The Society has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under SPMIFA. The Society's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds

All endowment funds are administered by a third-party organization on which the Society relies for prudent investment policies. The primary objective for the investment of these assets is to generate sufficient long-term growth of capital, without undue exposure to risk, to provide a sustainable level of spending distributions, as well as enhance the real purchasing power of the investments. The objectives shall be accomplished utilizing a balanced strategy of equities and fixed income based upon a mix which is intended to provide real growth, net of inflation and investment fees.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

7. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 0	\$ 148,416	\$ 148,416
Board designated endowment funds	54,392	0	54,392
Total	<u>\$ 54,392</u>	<u>\$ 148,416</u>	<u>\$ 202,808</u>

All endowment earnings are available for distribution and are immediately appropriated for expenditure; accordingly, they are recorded in unrestricted net assets. Endowment earnings with donor restrictions, of which there are none, would be recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

8. Fair Value Measurements

The Society applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access. Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Society has determined that the only material financial assets and liabilities that are measured at fair value on a recurring basis and categorized using the fair value hierarchy are investments. The following is a description of the valuation methodologies the Society uses for assets measured on a recurring basis at fair value. There have been no changes from the prior year in the methodologies used at December 31, 2017. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2017 and 2016.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

8. Fair Value Measurements (Continued)

Financial assets whose fair value has been measured using level 1 inputs:

Money market accounts: Carrying value is equal to the fair value determined by quoted prices in active exchange markets.

Equity securities, fixed income securities, alternative strategies securities and real estate securities: Reference to quoted market prices, net asset values per share and other relevant information generated by market transactions.

Financial assets whose fair value has been measured using level 3 inputs:

Alternative investments: Valued at the equity (pro rata interest) in the net assets of the hedge fund of funds, based on valuations provided by respective fund managers. The fair values reported by the fund managers are based on quoted market prices, if available, or other valuation methods.

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 56,275	\$ 0	\$ 0	\$ 56,275
Equity securities	686,580	0	0	686,580
Fixed income securities	370,190	0	0	370,190
Alternative investments	0	0	27,069	27,069
Real estate securities	60,907	0	0	60,907
Total assets at fair value	<u>\$ 1,173,952</u>	<u>\$ 0</u>	<u>\$ 27,069</u>	<u>\$ 1,201,021</u>

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 57,784	\$ 0	\$ 0	\$ 57,784
Equity securities	502,010	0	0	502,010
Fixed income securities	324,956	0	0	324,956
Alternative strategic securities	30,132	0	0	30,132
Alternative investments	0	0	24,794	24,794
Real estate securities	66,023	0	0	66,023
Total assets at fair value	<u>\$ 980,905</u>	<u>\$ 0</u>	<u>\$ 24,794</u>	<u>\$ 1,005,699</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2017 and 2016

8. Fair Value Measurements (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 24,794	\$ 22,947
Net appreciation	2,091	896
Net purchases and sales	184	951
Balance, end of year	<u>\$ 27,069</u>	<u>\$ 24,794</u>

9. Beneficial Interest

The Society is the beneficiary of various funds established by donors. The funds are held by a third-party organization which has variance power over the funds and, accordingly, the Society has not included its interest in these funds in the accompanying financial statements. The total value of these funds at December 31, 2017 and 2016 was \$555,082 and \$526,239, respectively. The Society will receive a portion of income or principal from these funds when certain conditions are met as stipulated in the fund agreements. Total amount received from these funds during the years ended December 31, 2017 and 2016 totaled \$21,027 and \$17,000, respectively.

10. Subsequent Events

Management evaluated the activity of the Society through November 14, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

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