

Humane Society of Greater Dayton

Financial Statements

December 31, 2018 and 2017



FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors

Humane Society of Greater Dayton

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December 31, 2018 and 2017

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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, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 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.

Flagel Huber Flagel

Certified Public Accountants
Dayton, Ohio
August 5, 2019

Humane Society of Greater Dayton
Statements of Financial Position
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,015,414	\$ 1,389,611
Pledges receivable - capital campaign, net	763,439	239,799
Grant receivable	4,500	13,000
Contributions receivable	31,000	0
Investments	588,573	1,052,605
Prepaid expenses	9,743	4,685
Total Current Assets	<u>3,412,669</u>	<u>2,699,700</u>
Other Assets		
Pledges receivable - capital campaign, net	662,282	383,006
Property and equipment, net	1,308,268	726,451
Deposits	190	190
Investments - permanently restricted	148,416	148,416
Total Other Assets	<u>2,119,156</u>	<u>1,258,063</u>
Total Assets	<u>\$ 5,531,825</u>	<u>\$ 3,957,763</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 68,576	\$ 126,838
Accrued expenses	38,697	38,344
Total Current Liabilities	<u>107,273</u>	<u>165,182</u>
Net Assets		
Without donor restrictions:		
Undesignated	2,687,734	2,622,904
Board designated - building	44,845	44,845
Board designated - endowment	54,392	54,392
Total net assets without donor restrictions	<u>2,786,971</u>	<u>2,722,141</u>
With donor restrictions	2,637,581	1,070,440
Total Net Assets	<u>5,424,552</u>	<u>3,792,581</u>
Total Liabilities and Net Assets	<u>\$ 5,531,825</u>	<u>\$ 3,957,763</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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 1,266,595	\$ 2,500	\$ 1,269,095
Contributions - capital campaign, net	0	1,573,141	1,573,141
Special events revenue (net of cost of direct benefits totaling \$28,115)	295,182	0	295,182
Grant revenue	11,250	4,500	15,750
In-kind contributions	27,205	0	27,205
Direct mail contributions	538,750	0	538,750
Adoption fees	137,818	0	137,818
Owner release fees	14,850	0	14,850
Service fees	85,149	0	85,149
Sales (net of cost of sales totaling \$5,573)	17,917	0	17,917
Net assets released from restrictions	13,000	(13,000)	0
Total support and revenue	<u>2,407,716</u>	<u>1,567,141</u>	<u>3,974,857</u>
Operating Expenses			
Program services	1,410,748	0	1,410,748
Management and general	222,232	0	222,232
Fundraising	667,928	0	667,928
Total operating expenses	<u>2,300,908</u>	<u>0</u>	<u>2,300,908</u>
Operating Change in Net Assets			
	<u>106,808</u>	<u>1,567,141</u>	<u>1,673,949</u>
Other Revenue (Expense)			
Interest and dividends	33,793	0	33,793
Realized gain on investments	90,147	0	90,147
Unrealized loss on investments	(158,349)	0	(158,349)
Investment fees	(7,569)	0	(7,569)
Total other revenue (expense)	<u>(41,978)</u>	<u>0</u>	<u>(41,978)</u>
Change in Net Assets	64,830	1,567,141	1,631,971
Net Assets - beginning of year	<u>2,722,141</u>	<u>1,070,440</u>	<u>3,792,581</u>
Net Assets - end of year	<u>\$ 2,786,971</u>	<u>\$ 2,637,581</u>	<u>\$ 5,424,552</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>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 1,013,147	\$ 0	\$ 1,013,147
Contributions - capital campaign, net	0	760,224	760,224
Special events revenue (net of cost of direct benefits totaling \$63,650)	275,482	0	275,482
Grant revenue	10,500	13,000	23,500
In-kind contributions	17,896	0	17,896
Direct mail contributions	551,422	0	551,422
Adoption fees	124,047	0	124,047
Owner release fees	14,563	0	14,563
Service fees	85,793	0	85,793
Sales (net of cost of sales totaling \$8,915)	6,722	0	6,722
Miscellaneous income	14,077		14,077
Net assets released from restrictions	23,750	(23,750)	0
Total support and revenue	<u>2,137,399</u>	<u>749,474</u>	<u>2,886,873</u>
Operating Expenses			
Program services	1,485,131	0	1,485,131
Management and general	229,176	0	229,176
Fundraising	278,662	0	278,662
Total operating expenses	<u>1,992,969</u>	<u>0</u>	<u>1,992,969</u>
Operating Change in Net Assets	<u>144,430</u>	<u>749,474</u>	<u>893,904</u>
Other Revenue (Expense)			
Interest and dividends	37,332	0	37,332
Realized gain on investments	79,078	0	79,078
Unrealized gain on investments	37,612	0	37,612
Investment fees	(8,504)	0	(8,504)
Total other revenue (expense)	<u>145,518</u>	<u>0</u>	<u>145,518</u>
Change in Net Assets	289,948	749,474	1,039,422
Net Assets - beginning of year	<u>2,432,193</u>	<u>320,966</u>	<u>2,753,159</u>
Net Assets - end of year	<u>\$ 2,722,141</u>	<u>\$ 1,070,440</u>	<u>\$ 3,792,581</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, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 555,561	\$ 78,373	\$ 260,672	\$ 894,606
Payroll taxes	46,482	15,191	18,117	79,790
Health insurance	15,898	2,243	7,459	25,600
Employee development	10,296	1,658	3,143	15,097
Professional services	176,547	45,816	69,895	292,258
Animal supplies	47,103	0	0	47,103
Shelter services	6,846	0	2,319	9,165
Veterinarian services	21,697	0	0	21,697
Veterinarian supplies	143,873	742	1,000	145,615
Auto expense	4,603	2,895	742	8,240
Facility maintenance	70,115	4,487	2,878	77,480
Liability insurance	17,210	3,227	1,075	21,512
Communications	47,509	8,908	2,969	59,386
Utilities	38,390	7,198	2,400	47,988
Rent	18,383	3,447	4,468	26,298
Technology	17,388	2,717	9,920	30,025
Depreciation	69,122	12,960	4,321	86,403
Special events	95,160	0	67,046	162,206
Capital campaign costs	0	0	160,911	160,911
Bank charges	905	27,812	0	28,717
General printing	2,841	0	15,466	18,307
Advertising	758	0	14,764	15,522
Postage	6	6	16,171	16,183
Licenses/permits	1,588	0	249	1,837
Organization dues	1,892	3,780	250	5,922
Meals and entertainment	508	686	1,693	2,887
Miscellaneous	67	86	0	153
Total operating expenses	<u>\$ 1,410,748</u>	<u>\$ 222,232</u>	<u>\$ 667,928</u>	<u>\$ 2,300,908</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
Employee development	19,714	3,091	113	22,918
Professional services	120,726	59,275	39,002	219,003
Animal supplies	30,132	0	0	30,132
Veterinarian services	121,543	0	0	121,543
Veterinarian supplies	119,482	0	0	119,482
Auto expense	7,284	1,366	455	9,105
Facility maintenance	54,443	10,208	3,403	68,054
Liability insurance	14,143	2,652	884	17,679
Communications	29,260	5,486	1,829	36,575
Utilities	40,054	7,510	2,503	50,067
Rent	17,888	3,354	1,118	22,360
Technology	15,895	2,980	993	19,869
Depreciation	63,588	11,923	3,974	79,485
Special events	98,439	0	34,789	133,228
Capital campaign costs	0	0	81,177	81,177
Bank charges	17,643	3,067	2,283	22,993
General printing	8,288	0	5,729	14,017
Advertising	9,243	0	6,849	16,092
Postage	7,739	2,580	2,580	12,899
Licenses/permits	2,817	313	0	3,130
Organization dues	4,846	909	304	6,057
Meals and entertainment	0	4,066	2,710	6,776
Miscellaneous	576	653	0	1,230
Total operating expenses	<u>\$ 1,485,131</u>	<u>\$ 229,176</u>	<u>\$ 278,662</u>	<u>\$ 1,992,969</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,631,971	\$ 1,039,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	86,403	79,485
Realized gain on investments	(90,147)	(79,078)
Unrealized (gain) loss on investments	158,349	(37,612)
Donated securities	(14,943)	(14,781)
Changes in assets and liabilities:		
Pledges receivable - capital campaign, net	(802,916)	(557,805)
Grant receivable	8,500	(13,000)
Contributions receivable	(31,000)	0
Prepaid expenses	(5,058)	(2,490)
Accounts payable	(58,262)	32,920
Accrued expenses	353	11,667
Net Cash Provided by Operating Activities	<u>883,250</u>	<u>458,728</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(668,220)	(93,469)
Proceeds from sale of investments	1,071,416	797,420
Purchase of investments	(660,643)	(861,271)
Net Cash Used in Investing Activities	<u>(257,447)</u>	<u>(157,320)</u>
Change in Cash	625,803	301,408
Cash and Cash Equivalents - beginning of year	<u>1,389,611</u>	<u>1,088,203</u>
Cash and Cash Equivalents - end of year	<u>\$ 2,015,414</u>	<u>\$ 1,389,611</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2018 and 2017

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.

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 two classes of net assets: without donor restrictions and with donor restrictions. A description of each class as it pertains to the Society is as follows:

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, amounts for an endowment and future building maintenance and repairs.

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, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Contributions Receivable

Contributions receivable represent unconditional donor promises to contribute cash to the Society which are not related to the capital campaign. Contributions receivable are recognized at the time the promise is made, at the net present value of the amounts expected to be collected. At December 31, 2018 all contributions receivable are expected to be collected within one year.

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 Society utilizes the allowance method to account for uncollectible amounts. An allowance is made for possible losses on collection of pledges receivable based upon a periodic review of risk. When receivables are determined to be uncollectible, they are charged off against the allowance. Management deems an account to be uncollectible when all internal collection efforts have been exhausted. Management has evaluated its pledges receivable and recorded an allowance for uncollectible amounts of \$78,778 and \$34,228 at December 31, 2018 and 2017.

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, 2018 and 2017.

Support and Revenue

Contributions received are recorded as with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

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.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are not directly related to a single program or activity but are indispensable to the conduct of the Organization's programs or existence are charged to management and general. Expenses relating to activities undertaken to induce contributions are charged to fundraising. Certain administrative costs including salaries and wages, payroll taxes, and employee benefits are allocated on the basis of estimates of personnel time related to each activity. Costs related to occupancy and maintenance of the building are allocated based upon a space utilization schedule.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs incurred during 2018 and 2017 were \$15,522 and \$16,092, 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, 2018. The Society believes it is no longer subject to income tax examination for tax years prior to 2015.

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, 2018 and 2017

3. Pledges Receivable - Capital Campaign

Pledges receivable consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Expected to be collected in:		
Less than one year	\$ 763,439	\$ 239,799
One to five years	812,116	444,756
Total	1,575,555	684,555
Less: discounts to net present value	(71,056)	(27,522)
Less: allowance for uncollectible amounts	(78,778)	(34,228)
Net	<u>\$ 1,425,721</u>	<u>\$ 622,805</u>

Pledges receivable due in more than one year are discounted at the federal rate applicable at the time of the pledge, which was 3.6% and 2.6% as of December 31, 2018 and 2017, respectively.

4. Property and Equipment

The following is a summary of property and equipment at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	Estimated Life in <u>Years</u>
Land	\$ 260,556	\$ 0	NA
Building	1,093,631	1,093,631	40
Building improvements	186,120	186,120	10 - 15
Community dog park	158,911	158,911	15
Animal vehicles	105,790	87,148	5
Furniture and equipment	282,269	259,901	7 - 10
Construction in progress	404,996	38,342	NA
Total	2,492,273	1,824,053	
Less accumulated depreciation	(1,184,005)	(1,097,602)	
Net book value	<u>\$ 1,308,268</u>	<u>\$ 726,451</u>	

Depreciation expense for the years ended December 31, 2018 and 2017 was \$86,403 and \$79,485, respectively.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2018 and 2017

5. Investments

The Society's investments as of December 31, 2018 are comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Money market accounts	\$ 12,278	\$ 12,278	\$ 0
Equity securities	101,325	98,679	(2,646)
Fixed income securities	32,750	29,009	(3,741)
Alternative investments	16,062	16,843	781
Real estate securities	6,813	5,941	(872)
Mutual funds	595,311	574,239	(21,072)
	<u>\$ 764,539</u>	<u>\$ 736,989</u>	<u>\$ (27,550)</u>

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 investments	24,978	27,069	2,091
Real estate securities	53,408	60,907	7,499
	<u>\$ 1,070,222</u>	<u>\$ 1,201,021</u>	<u>\$ 130,799</u>

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

	<u>2018</u>	<u>2017</u>
Unrealized gains (losses)	\$ (158,349)	\$ 37,612
Realized gains	90,147	79,078
Interest and dividend income	33,793	37,332
Investment fees	(7,569)	(8,504)
	<u>\$ (41,978)</u>	<u>\$ 145,518</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2018 and 2017

6. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Cash restricted for specific programs:		
Capital campaign	\$ 1,056,444	\$ 286,219
Furry Skurry	2,500	0
	<u>1,058,944</u>	<u>286,219</u>
Grant receivable restricted for specific programs:		
General spay/neuter	0	3,000
Furry Skurry	0	10,000
Vet care	4,500	0
	<u>4,500</u>	<u>13,000</u>
Pledges receivable restricted for capital campaign	<u>1,425,721</u>	<u>622,805</u>
Total Net Assets with Purpose Restrictions	2,489,165	922,024
Subject to the Organization's spending policy and appropriation:		
Investment of donor restricted funds held in perpetuity	<u>148,416</u>	<u>148,416</u>
Total net assets with donor restrictions	<u>\$ 2,637,581</u>	<u>\$ 1,070,440</u>

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

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished:		
Cruelty rescue	\$ 0	\$ 10,000
General spay/neuter expenses	3,000	12,750
Shelter	0	1,000
Furry Skurry	10,000	0
	<u>\$ 13,000</u>	<u>\$ 23,750</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2018 and 2017

7. Liquidity and Availability

The following reflects the Society's financial assets reduced by amounts not available for general use because of contractual or donor-imposed restrictions, or board designations, within one year of December 31, 2018.

Cash and cash equivalents	\$ 2,015,414
Pledges receivable	1,425,721
Grant receivable	4,500
Contributions receivable	31,000
Investments	<u>736,989</u>
Total financial assets at December 31, 2018	4,213,624
Less those unavailable for general expenditures within one year, due to:	
Donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(2,638,781)
Board designations:	
Designated by board for building and endowment	<u>(99,237)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,475,606</u>

The Society is partially supported by grants and contributions, which may contain donor restrictions. Because donor restrictions require resources to be used in a particular manner or in a future period, the Society must maintain sufficient resources to meet these restrictions. Consequently, financial assets may not be available for general expenditure within one year. As part of the Society's liquidity management policies, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. It is the policy of the Society to regularly review and assess the need for funds to meet operating obligations and to ensure the availability of cash or collateral to fulfill those requirements. In addition, the Board designated net assets may be drawn upon in the event of financial distress.

8. Endowment Funds

The Society's endowment consists of an investment fund which was established to provide support to the Society. Its endowment includes donor-restricted funds and funds designated by the Board of Directors to function as an endowment. 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.

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8. Endowment Funds (Continued)

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.

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

	<u>2018</u>	<u>2017</u>
Donor-restricted endowment funds:		
Original donor-restricted gift amount required to be maintained in perpetuity by donor	\$ 148,416	\$ 148,416
Board designated endowment funds	<u>54,392</u>	<u>54,392</u>
Total funds	<u>\$ 202,808</u>	<u>\$ 202,808</u>

All endowment earnings are available for distribution and are immediately appropriated for expenditure; accordingly, they are recorded in net assets without donor restrictions. Endowment earnings with donor restrictions, of which there are none, would be recorded in net assets with donor restrictions.

9. 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.

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Notes to Financial Statements

December 31, 2018 and 2017

9. Fair Value Measurements (Continued)

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. There have been no changes from the prior year in the methodologies used at December 31, 2018. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2018 and 2017. The following is a description of the valuation methodologies the Society uses for assets measured on a recurring basis at fair value.

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, real estate securities, and mutual funds: 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, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 12,278	\$ 0	\$ 0	\$ 12,278
Equity securities	98,679	0	0	98,679
Fixed income securities	29,009	0	0	29,009
Alternative investments	0	0	16,843	16,843
Real estate securities	5,941	0	0	5,941
Mutual funds	574,239	0	0	574,239
Total assets at fair value	<u>\$ 720,146</u>	<u>\$ 0</u>	<u>\$ 16,843</u>	<u>\$ 736,989</u>

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>

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Notes to Financial Statements

December 31, 2018 and 2017

9. Fair Value Measurements (Continued)

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

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 27,069	\$ 24,794
Net appreciation (depreciation)	(1,310)	2,091
Net purchases and sales	(8,916)	184
Balance, end of year	<u>\$ 16,843</u>	<u>\$ 27,069</u>

10. 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, 2018 and 2017 was \$479,946 and \$555,082, 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, 2018 and 2017 totaled \$0 and \$21,027, respectively.

11. Change in Accounting Policy

The Society reclassified its opening net asset balances as of January 1, 2017 to properly comply with accounting standards related to net asset classifications. The adoption of the new standard changes the presentation of net assets and has no net effect on the financial results of the Society. Under the new policy the Society's three net asset classifications (permanently restricted, temporarily restricted, and unrestricted) were replaced with two net asset classes: net assets with donor restrictions and net assets without donor restrictions.

12. Subsequent Events

Subsequent to year-end, the Board of Directors voted to authorize management to use the net assets titled "Board designated – building" for certain impending building repairs. The Board also voted to release its designation on the net assets titled "Board designated – endowment" and to recharacterize the same amount as "Board designated – emergency fund" for use in emergency situations as determined by the Board.

Management evaluated the activity of the Society through August 5, 2019 (the date the financial statements were available to be issued) and concluded that no additional 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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