



Connecticut Humane Society
Financial Statements
and Independent Auditor's Report
December 31, 2017 and 2016

Connecticut Humane Society

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Independent Auditor's Report

To the Board of Directors
Connecticut Humane Society

We have audited the accompanying financial statements of Connecticut Humane Society, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 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 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 Connecticut Humane Society as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Connecticut Humane Society as of December 31, 2016, were audited by other auditors whose report dated June 28, 2017, expressed an unmodified opinion on those statements.

CohnReznick LLP

Hartford, Connecticut
June 26, 2018

Connecticut Humane Society
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
<u>Assets</u>		
Cash	\$ 427,835	\$ 519,017
Contributions receivable, net	560,047	107,021
Dividends and interest receivable	186,128	200,483
Prepaid expenses and other current assets	184,524	194,968
Investments	65,670,202	59,424,859
Property and equipment, net	6,423,192	6,745,628
Investments held in trust by others	16,253,531	14,528,189
	\$ 89,705,459	\$ 81,720,165
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and other liabilities	\$ 399,474	\$ 315,116
Accrued payroll and benefits	367,816	371,942
	767,290	687,058
Net assets		
Unrestricted		
Designated - property and equipment, net	6,423,192	6,745,628
Designated - funds functioning as endowment	64,761,720	59,423,091
Undesignated	130,794	270,701
	71,315,706	66,439,420
Temporarily restricted	1,368,932	65,498
Permanently restricted	16,253,531	14,528,189
	88,938,169	81,033,107
Total net assets	88,938,169	81,033,107
Total liabilities and net assets	\$ 89,705,459	\$ 81,720,165

See Notes to Financial Statements.

Connecticut Humane Society

Statement of Activities Year Ended December 31, 2017 (With Comparative Totals for 2016)

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Total	2016 Total
Revenues, gains and other support					
Contributions, donations and support	\$ 2,367,050	\$ 86,305	\$ -	\$ 2,453,355	\$ 2,252,176
Legacies and bequests	771,306	-	-	771,306	814,810
Program revenue	1,653,814	-	-	1,653,814	1,912,559
Other income	6,842	-	-	6,842	12,529
Investment return utilized for operations	2,828,263	-	-	2,828,263	2,679,484
Net assets released from restrictions	92,354	(92,354)	-	-	-
Total revenues, gains and other support	<u>7,719,629</u>	<u>(6,049)</u>	<u>-</u>	<u>7,713,580</u>	<u>7,671,558</u>
Expenses					
Program services					
Animal shelter services	4,892,810	-	-	4,892,810	5,029,266
Veterinary clinic services	1,270,844	-	-	1,270,844	1,464,326
Community and educational services	563,138	-	-	563,138	550,441
Total program services	<u>6,726,792</u>	<u>-</u>	<u>-</u>	<u>6,726,792</u>	<u>7,044,033</u>
Program support					
Management and general	579,292	-	-	579,292	646,430
Fundraising and development	1,509,222	-	-	1,509,222	1,270,543
Total program support	<u>2,088,514</u>	<u>-</u>	<u>-</u>	<u>2,088,514</u>	<u>1,916,973</u>
Total expenses	<u>8,815,306</u>	<u>-</u>	<u>-</u>	<u>8,815,306</u>	<u>8,961,006</u>
Change in net assets from operations	<u>(1,095,677)</u>	<u>(6,049)</u>	<u>-</u>	<u>(1,101,726)</u>	<u>(1,289,448)</u>
Other changes					
Contributions, donations and support, net	-	1,309,483	-	1,309,483	-
Investment return, net	8,147,243	-	-	8,147,243	5,140,558
Investment return utilized for operations	(2,828,263)	-	-	(2,828,263)	(2,679,484)
Income from investments held in trust by others	653,203	-	-	653,203	682,655
Change in valuation of investments held in trust by others	-	-	1,725,342	1,725,342	151,078
Net assets released from restrictions	-	-	-	-	-
Loss on disposal of property and equipment	(220)	-	-	(220)	(22,736)
Total other changes	<u>5,971,963</u>	<u>1,309,483</u>	<u>1,725,342</u>	<u>9,006,788</u>	<u>3,272,071</u>
Change in net assets	4,876,286	1,303,434	1,725,342	7,905,062	1,982,623
Net assets, beginning	66,439,420	65,498	14,528,189	81,033,107	79,050,484
Net assets, end	<u>\$71,315,706</u>	<u>\$ 1,368,932</u>	<u>\$16,253,531</u>	<u>\$88,938,169</u>	<u>\$81,033,107</u>

See Notes to Financial Statements.

Connecticut Humane Society
Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Contributions, donations and support	\$ 2,178,492	\$ 73,684	\$ -	\$ 2,252,176
Legacies and bequests	814,810	-	-	814,810
Program revenue	1,912,559	-	-	1,912,559
Other income	12,529	-	-	12,529
Investment return utilized for operations	2,679,484	-	-	2,679,484
Net assets released from restrictions	70,236	(70,236)	-	-
Total revenues, gains and other support	7,668,110	3,448	-	7,671,558
Expenses				
Program services				
Animal shelter services	5,029,266	-	-	5,029,266
Veterinary clinic services	1,464,326	-	-	1,464,326
Community and educational services	550,441	-	-	550,441
Total program services	7,044,033	-	-	7,044,033
Program support				
Management and general	646,430	-	-	646,430
Fundraising and development	1,270,543	-	-	1,270,543
Total program support	1,916,973	-	-	1,916,973
Total expenses	8,961,006	-	-	8,961,006
Change in net assets from operations	(1,292,896)	3,448	-	(1,289,448)
Other changes				
Contributions, donations and support, net	-	-	-	-
Investment return, net	5,140,558	-	-	5,140,558
Investment return utilized for operations	(2,679,484)	-	-	(2,679,484)
Income from investments held in trust by others	682,655	-	-	682,655
Change in valuation of investments held in trust by others	-	-	151,078	151,078
Net assets released from restrictions	-	-	-	-
Loss on disposal of property and equipment	(22,736)	-	-	(22,736)
Total other changes	3,120,993	-	151,078	3,272,071
Change in net assets	1,828,097	3,448	151,078	1,982,623
Net assets, beginning	64,611,323	62,050	14,377,111	79,050,484
Net assets, end	\$66,439,420	\$ 65,498	\$14,528,189	\$81,033,107

See Notes to Financial Statements.

Connecticut Humane Society
Statement of Functional Expenses
Year Ended December 31, 2017

	Program services				Program support			
	Animal shelter services	Veterinary clinic services	Community and educational services	Total	Management and general	Fundraising and development	Total	Total expenses
Salaries and related expenses	\$ 3,318,601	\$ 841,871	\$ 281,202	\$ 4,441,674	\$ 365,172	\$ 624,773	\$ 989,945	\$ 5,431,619
Medical supplies and diagnostics	223,559	192,543	18,981	435,083	-	-	-	435,083
Animal care and transports	337,667	8,730	2,494	348,891	-	-	-	348,891
Professional services	90,111	77,615	33,244	200,970	49,999	139,929	189,928	390,898
Printing and promotion	3,274	305	42,722	46,301	1,342	509,101	510,443	556,744
Advertising	45,708	18,283	91,415	155,406	-	27,425	27,425	182,831
Facilities expenses	229,746	26,366	9,961	266,073	26,293	12,216	38,509	304,582
Utilities	173,975	15,897	5,091	194,963	17,237	3,394	20,631	215,594
IT and communications	86,266	12,806	7,165	106,237	23,521	62,650	86,171	192,408
Insurance	42,647	7,259	4,167	54,073	23,460	-	23,460	77,533
Staff expense	39,349	4,638	3,343	47,330	6,659	9,437	16,096	63,426
Office supplies and postage	4,436	1,781	1,060	7,277	6,750	14,557	21,307	28,584
Dog training	-	-	35,250	35,250	-	-	-	35,250
Special events	698	-	12,266	12,964	-	55,579	55,579	68,543
Bank and transaction fees	17,319	14,499	-	31,818	8,584	32,542	41,126	72,944
Miscellaneous	10,002	2,825	411	13,238	966	7,913	8,879	22,117
Total expenses before depreciation	4,623,358	1,225,418	548,772	6,397,548	529,983	1,499,516	2,029,499	8,427,047
Depreciation	269,452	45,426	14,366	329,244	49,309	9,706	59,015	388,259
Total functional expenses	\$ 4,892,810	\$ 1,270,844	\$ 563,138	\$ 6,726,792	\$ 579,292	\$ 1,509,222	\$ 2,088,514	\$ 8,815,306

See Notes to Financial Statements.

Connecticut Humane Society
Statement of Functional Expenses
Year Ended December 31, 2016

	Program services				Program support			Total expenses
	Animal shelter services	Veterinary clinic services	Community and educational services	Total	Management and general	Fundraising and development	Total	
Salaries and related expenses	\$ 3,340,210	\$ 904,206	\$ 260,410	\$ 4,504,826	\$ 366,349	\$ 505,489	\$ 871,838	\$ 5,376,664
Medical supplies and diagnostics	276,517	215,676	16,562	508,755	-	-	-	508,755
Animal care and transports	392,060	23,019	2,558	417,637	-	-	-	417,637
Professional services	120,924	167,218	34,300	322,442	48,317	114,752	163,069	485,511
Printing and promotion	11,502	42	38,404	49,948	1,201	459,475	460,676	510,624
Advertising	48,960	18,638	93,192	160,790	-	27,958	27,958	188,748
Facilities expenses	247,674	19,156	7,165	273,995	41,067	6,748	47,815	321,810
Utilities	182,701	13,471	6,829	203,001	22,078	1,684	23,762	226,763
IT and communications	84,477	13,221	6,504	104,202	27,395	55,255	82,650	186,852
Insurance	43,458	7,002	2,155	52,615	19,893	1,105	20,998	73,613
Staff expense	38,794	4,445	3,192	46,431	10,272	4,820	15,092	61,523
Office supplies and postage	5,983	2,218	1,311	9,512	7,437	11,381	18,818	28,330
Dog training	-	-	37,900	37,900	-	-	-	37,900
Special events	728	-	11,298	12,026	-	47,261	47,261	59,287
Bank and transaction fees	17,040	15,542	-	32,582	9,265	19,057	28,322	60,904
Miscellaneous	7,135	6,071	313	13,519	1,311	5,107	6,418	19,937
Total expenses before depreciation	4,818,163	1,409,925	522,093	6,750,181	554,585	1,260,092	1,814,677	8,564,858
Depreciation	211,103	54,401	28,348	293,852	91,845	10,451	102,296	396,148
Total functional expenses	\$ 5,029,266	\$ 1,464,326	\$ 550,441	\$ 7,044,033	\$ 646,430	\$ 1,270,543	\$ 1,916,973	\$ 8,961,006

See Notes to Financial Statements.

Connecticut Humane Society
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 7,905,062	\$ 1,982,623
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	388,259	396,148
Change in present value discount of contributions receivable	38,644	-
Loss on disposal of property and equipment	220	22,736
Net realized and unrealized gains on investments	(6,727,515)	(3,914,845)
Change in value of investments held in trust by others	(1,725,342)	(151,078)
Contributions restricted for long-term purposes	(1,309,483)	-
Net changes in operating assets and liabilities		
Contributions receivable	(61,795)	(7,935)
Dividends and interest receivable	14,355	(9,377)
Prepaid expenses and other current assets	10,444	(40,183)
Accounts payable and other liabilities	84,358	129,530
Accrued payroll and benefits	(4,126)	184,380
	(1,386,919)	(1,408,001)
Net cash used in operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(66,043)	(57,671)
Proceeds from disposal of property and equipment	-	11,200
Purchase of investments	(74,842,320)	(75,919,725)
Proceeds from sale of investments	75,324,492	77,554,988
	416,129	1,588,792
Net cash provided by investing activities		
Cash flows from financing activities		
Contributions restricted for long-term purposes	879,608	-
	879,608	-
Net cash provided by financing activities		
Net increase (decrease) in cash	(91,182)	180,791
Cash, beginning	519,017	338,226
Cash, end	\$ 427,835	\$ 519,017

See Notes to Financial Statements.

Connecticut Humane Society

Notes to Financial Statements December 31, 2017 and 2016

Note 1 - Summary of significant accounting policies

Nature of business

The Connecticut Humane Society (the "Society") is one of Connecticut's oldest privately funded nonprofit organizations. The Society is the leading resource in the state for companion animal welfare, enriching the lives of families and communities through adoption services, medical care, education and prevention of cruelty. Founded in 1881 to promote humanity and kindness and to prevent cruelty to people and animals, for 84 years the Society was the only statewide organization offering protection to children, until a state agency was established. From that point forward, the Society devoted its efforts exclusively to animals.

The Society operates three shelters where animals may be surrendered and adopted, and a reduced fee, full service animal clinic ("Fox Memorial Clinic"). Additional public services include vaccine clinics, spay/neuter clinics, humane education, dog obedience classes, a Pet Food Pantry, and assistance to law enforcement in cruelty investigations. The Society generates income from adoption and surrender fees, clinic fees, donations, program fees, trust income, income from funds functioning as endowment and grants. The Society also has an extensive volunteer program.

Basis of accounting and presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of the Society are reported in the following net asset categories:

Unrestricted

Net assets representing available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors. Undesignated net assets represent the portion of expendable funds that is available for support of operations. Designated net assets represent reserves or special designations established by the Board of Directors. The Board of Directors has established the following designations: funds functioning as endowment for the amounts accumulated as unrestricted endowment funds, and the Society's investment in property and equipment.

Temporarily restricted

Net assets representing contributions that are restricted by the donor as to purpose or time of expenditure.

Permanently restricted

Net assets representing resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Society to expend the income earned thereon. These permanently restricted net assets include the Society's proportionate share of the principal amount of the irrevocable trusts with outside trustees for which the Society is an income beneficiary.

Measure of operations

The statements of activities present revenue from operations separately from nonoperating activities. For purposes of the statements of activities, operations are defined as revenue and expenses from animal rescue, protection and adoption, community outreach, humane education, administration and fundraising. All other revenue and expenses (primarily investment results) are classified as nonoperating activities. The basis of presentation reflects the Society's management operating philosophy.

Connecticut Humane Society

Notes to Financial Statements December 31, 2017 and 2016

Revenue recognition

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations that are not met in the same reporting period or by operation of law. Expirations of temporary restrictions on net assets, that is, the donor-stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Program revenue is recognized in the period in which the services are performed and are presented net of any discounts.

Contributions, including unconditional promises to give, are recognized in the period received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. The Society reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor 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 statements of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Society reports gifts of property 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 on how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations about how long those assets must be maintained, the Society reports expirations of donor restrictions when the assets are placed in service.

Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. However, many volunteers have donated significant amounts of time, estimated at approximately 85,146 hours in 2017, in supporting the Society's mission.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid short-term instruments with original maturities of three months or less. There were no cash equivalents at December 31, 2017 or 2016. The Society maintains its cash and cash equivalents with high-credit quality financial institutions. At December 31, 2017, the cash and cash equivalents balances exceed federally insured limits by approximately \$156,000. Management believes that the Society's deposits are not subject to significant credit risk.

Contributions receivable

Contributions receivable represent unconditional promises to give that are recognized in the period in which the promise is recorded. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions that are expected to be collected in more than one year are discounted at an appropriate rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. On a periodic basis, the Society evaluates

Connecticut Humane Society

Notes to Financial Statements December 31, 2017 and 2016

its contributions receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs, collections and current credit conditions.

Investments

Investments are reported at fair value (see Note 5). Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis, net of investment expenses. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) on investments includes the Society's gains and losses on investments bought and sold as well as held during the year. These amounts are reported in the statements of activities as increases or decreases in unrestricted, temporarily restricted or permanently restricted net assets as appropriate based on any donor stipulations or law.

Property and equipment

Property and equipment are stated at cost, or if donated, at their approximate fair value on the date of donation, net of accumulated depreciation. The Society capitalizes all such acquisitions in excess of \$5,000. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets, which are generally as follows:

Buildings and improvements	15 - 40 years
Equipment	3 - 5 years
Furniture and fixtures	10 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the change in net assets for the period.

Investments held in trust by others

The Society retains beneficial interests in various trusts established by donors and held by unrelated trustees. Under these arrangements, the Society receives investment income from the trusts in perpetuity but does not have access to the principal. The beneficial interests are carried at the present value of estimated future receipts from the trusts, which is measured by the fair value of the assets in the trust. Changes in the carrying amount of the beneficial interests are recognized as increases or decreases in permanently restricted net assets.

Functional allocation of expenses

The costs of providing the 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 benefitted.

Advertising costs

The Society expenses the cost of advertising as incurred. Advertising costs charged to operations during the years ended December 31, 2017 and 2016 were \$182,831 and \$188,748, respectively.

Income tax status

The Society is exempt from federal and state corporate income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

The Society had no uncertain tax positions at December 31, 2017 or 2016. The Society's federal information returns prior to fiscal year 2014 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. If the Society had unrelated business income taxes, it would recognize interest

Connecticut Humane Society

Notes to Financial Statements December 31, 2017 and 2016

and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position.

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 certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Reclassifications

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

Subsequent events

In preparing these financial statements, management has evaluated subsequent events through June 26, 2018, which represents the date the financial statements were available to be issued.

Note 2 - 501(c) Agencies Trust

The Society is self-insured for unemployment claims through 501(c) Agencies Trust. Contributions to 501(c) Agencies Trust are accumulated and used to pay future claims. The Society could be required to make additional payments if claims exceed the accumulated contributions. As of December 31, 2017 and 2016, the Society's account held by the trust was \$55,987 and \$62,977, respectively. These amounts are included in cash on the statements of financial position and there was no estimated claim liability as of December 31, 2017 and 2016. Per the contract with 501(c) Agencies Trust, the Society has the ability to withdraw funds if accumulated contributions exceed the estimated liability.

Note 3 - Contributions receivable

Unconditional promises to give as of December 31, 2017 and 2016 are due to be collected as follows:

	2017	2016
Receivables due in less than 1 year	\$ 287,974	\$ 107,021
Receivables due in 1 - 5 years	310,717	-
	<u>598,691</u>	<u>107,021</u>
Less discount to present value (5.5%)	(38,644)	-
	<u>\$ 560,047</u>	<u>\$ 107,021</u>

There is no allowance for doubtful accounts as of December 31, 2017 and 2016.

Connecticut Humane Society

**Notes to Financial Statements
December 31, 2017 and 2016**

Note 4 - Investments

The following is a schedule of the fair values and composition of investments at December 31, 2017 and 2016:

	2017		2016	
	Fair value	% of Total	Fair value	% of Total
Domestic equities	\$ 38,153,081	58%	\$ 34,403,105	58%
Mutual funds	326,903	0%	-	0%
International developed equities	2,845,265	4%	1,850,613	3%
U.S. Government bonds	10,257,704	16%	-	0%
Corporate bonds	11,717,898	18%	19,799,197	33%
Municipal bonds	154,690	0%	31,627	0%
Money market funds	2,214,661	3%	1,738,396	3%
Real estate investment trust	-	0%	1,601,921	3%
	<u>\$ 65,670,202</u>	<u>100%</u>	<u>\$ 59,424,859</u>	<u>100%</u>

During 2017, the Society established a separate investment account into which collections related to its capital campaign are deposited. The balance in this account at December 31, 2017 was approximately \$907,000.

Net investment return for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Interest and dividend income	\$ 1,630,781	\$ 1,494,450
Less management and custodial fees	(211,053)	(268,737)
Interest and dividend income, net	1,419,728	1,225,713
Realized and unrealized gains on investments	6,727,515	3,914,845
Total investment return, net	8,147,243	5,140,558
Less amount utilized for operations	(2,828,263)	(2,679,484)
Investment return, net of amount utilized for operations	<u>\$ 5,318,980</u>	<u>\$ 2,461,074</u>

Connecticut Humane Society

Notes to Financial Statements December 31, 2017 and 2016

Note 5 - Fair value measurements

The Society values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs which are used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Society utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The fair value hierarchy does not attempt to measure the quality of the investments.

Financial assets measured at fair value at December 31, 2017 and 2016 have been categorized in the tables below based upon the fair value hierarchy described above:

	Fair Value	Level 1	Level 2	Level 3
<u>December 31, 2017</u>				
Domestic equities	\$ 38,153,081	\$ 38,153,081	\$ -	\$ -
Mutual funds	326,903	326,903	-	-
International developed equities	2,845,265	2,845,265	-	-
U.S. Government bonds	10,257,704	-	10,257,704	-
Corporate bonds				
Investment grade taxable	10,487,978	-	10,487,978	-
International developed bonds	1,229,920	-	1,229,920	-
Total corporate bonds	11,717,898	-	11,717,898	-
Municipal bonds	154,690	-	154,690	-
Money market funds	2,214,661	2,214,661	-	-
Total investments at fair value	65,670,202	43,539,910	22,130,292	-
Investments held in trust by others	16,253,531	-	-	16,253,531
	<u>\$ 81,923,733</u>	<u>\$ 43,539,910</u>	<u>\$ 22,130,292</u>	<u>\$ 16,253,531</u>

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Notes to Financial Statements December 31, 2017 and 2016

	Fair Value	Level 1	Level 2	Level 3
<u>December 31, 2016</u>				
Domestic equities				
U.S. large cap	\$ 31,645,836	\$ 31,645,836	\$ -	\$ -
U.S. mid cap	2,757,269	2,757,269	-	-
Total domestic equities	<u>34,403,105</u>	<u>34,403,105</u>	<u>-</u>	<u>-</u>
International developed equities	<u>1,850,613</u>	<u>1,850,613</u>	<u>-</u>	<u>-</u>
Corporate bonds				
Investment grade taxable	18,858,734	7,507,118	11,351,616	-
International developed bonds	804,275	-	804,275	-
Global high yield taxable	136,188	16,688	119,500	-
Total corporate bonds	<u>19,799,197</u>	<u>7,523,806</u>	<u>12,275,391</u>	<u>-</u>
Municipal bonds	<u>31,627</u>	<u>-</u>	<u>31,627</u>	<u>-</u>
Money market funds	<u>1,738,396</u>	<u>1,738,396</u>	<u>-</u>	<u>-</u>
Real estate investment trust	<u>1,601,921</u>	<u>1,601,921</u>	<u>-</u>	<u>-</u>
Total investments at fair value	59,424,859	47,117,841	12,307,018	-
Investments held in trust by others	<u>14,528,189</u>	<u>-</u>	<u>-</u>	<u>14,528,189</u>
	<u>\$ 73,953,048</u>	<u>\$ 47,117,841</u>	<u>\$ 12,307,018</u>	<u>\$ 14,528,189</u>

Investments in domestic equities, international developed equities and real estate investment trust assets are valued at the closing price reported in the active market in which the individual securities are traded. Mutual funds and money market funds held by the Society are open-ended funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and transact at that price. The mutual funds and money market funds are deemed to be actively traded (Level 1).

Corporate bonds are valued at the closing price reported in the active market in which the individual securities are traded. U.S. Government and municipal bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings (Level 2).

Assets generally measured at fair value using inputs categorized in Level 3 of the fair value hierarchy include assets held in trust by others (the "Trusts"). The fair value of the Trust assets is based on the fair value of the underlying investments within the Trusts, which are established by the trustee or other third-party administrators using fair values for identical assets in an active market for similar assets. The trustee and other third-party administrators provide the Society with investment statements and valuations of its portion of the Trust at year end. These are evaluated annually by the Society.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the valuation methodologies used at December 31, 2017.

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The Society's policy is to recognize transfers in and out of various levels as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers in or out during the year ended December 31, 2017.

The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs for the years ended December 31, 2017 and 2016:

	<u>Investments held in trust by others</u>
Balance, January 1, 2016	\$ 14,377,111
Change in fair value	<u>151,078</u>
Balance, December 31, 2016	14,528,189
Change in fair value	<u>1,725,342</u>
Balance, December 31, 2017	<u><u>\$ 16,253,531</u></u>

Note 6 - Property and equipment

Property and equipment at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 110,380	\$ 110,380
Buildings and improvements	9,801,755	9,782,169
Equipment	982,175	975,864
Furniture and fixtures	<u>128,444</u>	<u>105,426</u>
	11,022,754	10,973,839
Less: accumulated depreciation	<u>4,599,562</u>	<u>4,228,211</u>
	<u><u>\$ 6,423,192</u></u>	<u><u>\$ 6,745,628</u></u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$388,259 and \$396,148, respectively.

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Notes to Financial Statements December 31, 2017 and 2016

Note 7 - Net asset limitations and restrictions

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes:

	2017	2016
Restricted for program services	\$ 39,449	\$ 44,757
Restricted by time	-	19,333
Capital projects	20,000	1,408
Paws for healing campaign	1,309,483	-
	<u>\$ 1,368,932</u>	<u>\$ 65,498</u>

Net assets released from restriction by incurring expenses satisfying the restricted purpose specified by donors, or from the expiration of time restrictions, were as follows:

	2017	2016
Program services	\$ 71,613	\$ 53,740
Restricted by time	19,333	3,300
Capital projects	1,408	13,196
	<u>\$ 92,354</u>	<u>\$ 70,236</u>

Permanently restricted net assets consist of the principal portion of the Society's investments held in trust by others. The distributions from the investments held in trust by others is classified as unrestricted net assets.

Note 8 - Endowment

The Society's endowment includes 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.

Interpretation of relevant law

The Board of Directors of the Society has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CTUPMIFA") 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. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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Notes to Financial Statements December 31, 2017 and 2016

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by CTUPMIFA. In accordance with CTUPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the various funds
2. The purposes of the Society and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Society
7. The investment policies of the Society

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

	<u>Unrestricted</u>
Endowment net assets, January 1, 2016	\$ 56,976,671
Investment return	
Investment income, net	1,213,530
Investment gains	3,912,374
	<u>5,125,904</u>
Appropriation for expenditure	<u>(2,679,484)</u>
Endowment net assets, December 31, 2016	<u>59,423,091</u>
Investment return	
Investment income, net	1,428,944
Investment gains	6,737,948
	<u>8,166,892</u>
Appropriation for expenditure	<u>(2,828,263)</u>
Endowment net assets, December 31, 2017	<u>\$ 64,761,720</u>

Return objectives and risk parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maintain the inflation-adjusted value of the current asset base while recognizing the objective of real growth in principal within reasonable and prudent levels of risk.

Connecticut Humane Society

Notes to Financial Statements December 31, 2017 and 2016

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

The Society has a policy of appropriating for distribution an amount not to exceed 5.0% for the years ended December 31, 2017 and 2016, of its endowment fund's average fair value over the prior twelve calendar quarters. In addition, with the approval of the Board of Directors, the Society may spend in excess of such 5.0% for operating expenses and/or capital projects. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 9 - Retirement plan

The Society has established a 401(k)-retirement plan that covers all eligible employees. Participants can elect to have their compensation reduced, and the Society matches up to 6% of the participant's contributions based on years of service. Additionally, the plan provides for a discretionary employer contribution. For the years ended December 31, 2017 and 2016, the discretionary employer contribution was 5% of eligible compensation. The Society's expense for the years ended December 31, 2017 and 2016 was \$259,011 and \$236,976, respectively.

The Society established a 403(b) plan in December 2013, whereby employees meeting certain requirements may participate in the plan. Participants can elect to have their compensation reduced, and the Society matches up to 6% of the participant's contributions based on years of service. Additionally, the plan provides for a discretionary employer contribution. These matching contributions are subject to certain Internal Revenue Service limitations. For the years ended December 31, 2017 and 2016, the discretionary employer contribution was 5% of eligible compensation. The Society's matching contributions expense for the years ended December 31, 2017 and 2016 was \$19,482 and \$18,881, respectively.

Note 10 - Performance stock option plan

The Society has established a nonqualified Performance Stock Option Plan for the benefit of its employees. Total options granted to date allow a 15-year option to purchase shares of Vanguard 500 Index Fund. The plan is required to be funded at the time of purchase, and any assets set aside to fund future benefits remain subject to any claims of the Society's creditors. During 2016, the stock options expired and were paid out.

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December 31, 2017 and 2016**

Note 11 - Related party transactions

Certain board members and key employees are also owners or key employees of organizations providing animal care services to the Society totaling \$73,025 for the year ended December 31, 2016. There were no amounts due to related parties as of December 31, 2016. There were no related party transactions for the year ended December 31, 2017.

Note 12 - Concentrations

Market risk

The Society invests in various debt and equity securities. These investments are recorded at fair value. Accordingly, the investment securities can fluctuate because of interest rates, reinvestment, credit, market 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 the Society's investments, which could materially affect amounts reported in the financial statements.

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