

Connecticut Humane Society
**Financial Statements
and Independent Auditor's Report**
December 31, 2019

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 statements of financial position as of December 31, 2019, 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 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 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, 2019, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Connecticut Human Society's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Hartford, Connecticut
May 20, 2020

Connecticut Humane Society
Statements of Financial Position
December 31, 2019
(With Comparative Totals for December 31, 2018)

<u>Assets</u>		
	2019	2018
Cash	\$ 3,416,085	\$ 970,719
Contributions receivable, net	651,597	445,253
Dividends and interest receivable	152,972	151,701
Prepaid expenses and other current assets	149,475	178,104
Investments	70,925,476	61,501,811
Property and equipment, net	5,837,730	6,112,523
Investments held in trust by others	16,431,790	14,147,763
	\$ 97,565,125	\$ 83,507,874
Total assets		
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and other liabilities	\$ 391,483	\$ 333,639
Accrued payroll and benefits	419,788	420,144
	811,271	753,783
Total liabilities		
Net assets		
Without donor restrictions		
Designated - property and equipment, net	5,837,730	6,112,523
Designated - funds functioning as endowment	69,144,924	60,273,774
Undesignated	3,010,129	518,035
	77,992,783	66,904,332
Total without donor restrictions		
With donor restrictions		
Time or purpose	2,329,281	1,701,996
Perpetual	16,431,790	14,147,763
	18,761,071	15,849,759
Total with donor restrictions		
Total net assets	96,753,854	82,754,091
Total liabilities and net assets	\$ 97,565,125	\$ 83,507,874

See Notes to Financial Statements.

Connecticut Humane Society

Statement of Activities Year Ended December 31, 2019 (With Comparative Totals for 2018)

	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
Revenues, gains and other support				
Contributions, donations and support	\$ 2,349,173	\$ 112,278	\$ 2,461,451	\$ 2,535,822
Legacies and bequests	3,830,849	-	3,830,849	1,511,089
Program revenue	1,400,367	-	1,400,367	1,382,442
Other income	879	-	879	1,416
Investment return utilized for operations	3,052,286	-	3,052,286	3,108,367
Net assets released from restrictions	166,842	(166,842)	-	-
Total revenues, gains and other support	10,800,396	(54,564)	10,745,832	8,539,136
Expenses				
Program services				
Animal shelter services	5,079,394	-	5,079,394	4,926,846
Veterinary clinic services	1,112,981	-	1,112,981	1,061,613
Community and educational services	605,576	-	605,576	584,732
Total program services	6,797,951	-	6,797,951	6,573,191
Program support				
Management and general	786,413	-	786,413	845,968
Fundraising and development	1,704,135	-	1,704,135	1,726,790
Total program support	2,490,548	-	2,490,548	2,572,758
Total expenses	9,288,499	-	9,288,499	9,145,949
Change in net assets from operations	1,511,897	(54,564)	1,457,333	(606,813)
Other changes				
Contributions, donations and support, net	-	681,849	681,849	293,033
Investment return, net	11,950,355	-	11,950,355	(1,412,449)
Investment return utilized for operations	(3,052,286)	-	(3,052,286)	(3,108,367)
Income from investments held in trust by others	678,485	-	678,485	756,286
Change in valuation of investments held in trust by others	-	2,284,027	2,284,027	(2,105,768)
Total other changes	9,576,554	2,965,876	12,542,430	(5,577,265)
Change in net assets	11,088,451	2,911,312	13,999,763	(6,184,078)
Net assets, beginning	66,904,332	15,849,759	82,754,091	88,938,169
Net assets, end	\$ 77,992,783	\$ 18,761,071	\$ 96,753,854	\$ 82,754,091

See Notes to Financial Statements.

Connecticut Humane Society
Statement of Functional Expenses
Year Ended December 31, 2019

	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	\$ 3,504,106	\$ 661,686	\$ 269,365	\$ 4,435,157	\$ 546,776	\$ 822,726	\$ 1,369,503	\$ 5,804,660
Medical supplies and diagnostics	262,993	191,413	17,693	472,099	-	-	-	472,099
Animal care and transports	248,873	20,163	1,032	270,068	-	-	-	270,068
Professional services	167,271	98,926	45,307	311,504	51,503	150,196	201,699	513,203
Printing and promotion	4,221	430	28,729	33,380	637	531,920	532,557	565,937
Advertising	-	-	154,048	154,048	27,185	-	27,185	181,233
Facilities expenses	244,072	30,777	9,611	284,460	20,082	18,967	39,050	323,510
Utilities	180,926	17,256	5,526	203,708	15,122	7,368	22,491	226,199
IT and communications	79,899	15,867	5,730	101,496	25,120	59,807	84,926	186,422
Insurance	52,713	9,991	4,016	66,720	32,689	-	32,690	99,410
Staff expense	40,351	2,802	5,413	48,566	7,807	9,820	17,627	66,193
Office supplies and postage	6,391	2,271	1,369	10,031	5,070	13,039	18,109	28,140
Dog training	-	-	30,500	30,500	-	-	-	30,500
Special events	514	-	11,969	12,483	-	37,296	37,295	49,778
Bank and transaction fees	14,388	13,105	-	27,493	11,914	28,924	40,838	68,331
Miscellaneous	4,989	3,230	1,017	9,236	3,221	5,199	8,419	17,655
Total expenses before depreciation	4,811,707	1,067,917	591,325	6,470,949	747,126	1,685,262	2,432,389	8,903,338
Depreciation	267,687	45,064	14,251	327,002	39,287	18,873	58,159	385,161
Total functional expenses	\$ 5,079,394	\$ 1,112,981	\$ 605,576	\$ 6,797,951	\$ 786,413	\$ 1,704,135	\$ 2,490,548	\$ 9,288,499

See Notes to Financial Statements.

Connecticut Humane Society
Statement of Functional Expenses
Year Ended December 31, 2018

	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	\$ 3,446,360	\$ 648,855	\$ 263,069	\$ 4,358,284	\$ 618,253	\$ 746,361	\$ 1,364,614	\$ 5,722,898
Medical supplies and diagnostics	260,523	186,553	9,720	456,796	-	-	-	456,796
Animal care and transports	270,288	20,170	972	291,430	-	-	-	291,430
Professional services	91,420	64,017	36,792	192,229	49,906	185,019	234,925	427,154
Printing and promotion	3,539	295	47,608	51,442	432	574,030	574,462	625,904
Advertising	-	-	131,882	131,882	23,273	-	23,273	155,155
Facilities expenses	208,907	28,998	10,093	247,998	23,831	16,447	40,278	288,276
Utilities	170,624	16,772	5,371	192,767	14,699	7,161	21,860	214,627
IT and communications	83,917	11,923	5,815	101,655	21,442	80,054	101,496	203,151
Insurance	49,771	8,967	4,492	63,230	29,376	-	29,376	92,606
Staff expense	47,708	8,495	10,455	66,658	10,171	8,385	18,556	85,214
Office supplies and postage	5,727	2,383	1,255	9,365	4,637	10,874	15,511	24,876
Dog training	-	-	29,500	29,500	-	-	-	29,500
Special events	728	-	12,541	13,269	-	43,522	43,522	56,791
Bank and transaction fees	14,176	13,125	-	27,301	8,179	30,145	38,324	65,625
Miscellaneous	6,381	6,149	964	13,494	2,616	5,983	8,599	22,093
Total expenses before depreciation	4,660,069	1,016,702	570,529	6,247,300	806,815	1,707,981	2,514,796	8,762,096
Depreciation	266,777	44,911	14,203	325,891	39,153	18,809	57,962	383,853
Total functional expenses	\$ 4,926,846	\$ 1,061,613	\$ 584,732	\$ 6,573,191	\$ 845,968	\$ 1,726,790	\$ 2,572,758	\$ 9,145,949

See Notes to Financial Statements.

Connecticut Humane Society

**Statements of Cash Flows
Year Ended December 31, 2019
(With Comparative Totals for December 31, 2018)**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 13,999,763	\$ (6,184,078)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	385,161	383,853
Change in present value discount of contributions receivable	16,312	(14,231)
Net realized and unrealized (gains) losses on investments	(10,302,359)	3,360,633
Change in value of investments held in trust by others	(2,284,027)	2,105,768
Contributions restricted for long-term purposes	(681,849)	(293,033)
Changes in operating assets and liabilities		
Contributions receivable	497,350	64,000
Dividends and interest receivable	(1,271)	34,427
Prepaid expenses and other current assets	28,629	6,420
Accounts payable and other liabilities	57,844	(65,835)
Accrued payroll and benefits	(356)	52,328
	<u>1,715,197</u>	<u>(549,748)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(110,368)	(73,184)
Purchase of investments	(29,725,673)	(68,276,161)
Proceeds from sale of investments	30,604,367	69,083,919
	<u>768,326</u>	<u>734,574</u>
Net cash provided by investing activities		
Cash flows from financing activities		
Contributions restricted for long-term purposes	(38,157)	358,058
	<u>(38,157)</u>	<u>358,058</u>
Net cash (used in) provided by financing activities		
Net increase in cash	2,445,366	542,884
Cash, beginning	<u>970,719</u>	<u>427,835</u>
Cash, end	<u>\$ 3,416,085</u>	<u>\$ 970,719</u>

See Notes to Financial Statements.

Connecticut Humane Society
Notes to Financial Statements
December 31, 2019
(With Comparative Totals for December 31, 2018)

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 services, 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.

Recent accounting pronouncements

The Society adopted, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

The Society adopted FASB ASU 2014-09, *Revenue from Contracts with Customers*. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which the Society expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues.

Analysis of various provisions of this standard resulted in no significant changes in the way the Society recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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:

Without donor restrictions

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.

Connecticut Humane Society
Notes to Financial Statements
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(With Comparative Totals for December 31, 2018)

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 and the Society's investment in property and equipment.

With donor restrictions

Net assets representing resources with restrictions imposed by the donor. 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 and any income earned thereon may be expended. These perpetually 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, veterinary clinic, 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.

Contributions

Transactions where the resource provider often receive value indirectly by providing a societal benefit, although the societal benefit is not considered to be of commensurate value, are deemed to be contributions. Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the Society has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the Society fails to overcome the barrier. The Society recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received.

Unconditional contributions are recorded as either with donor restriction or without donor restriction. Contributions are recognized as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as contributions without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statements of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as contribution without donor restrictions.

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 78,912 hours in 2019, in supporting the Society's mission.

Connecticut Humane Society
Notes to Financial Statements
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(With Comparative Totals for December 31, 2018)

Program revenue

Revenue is recognized when control of the promised service is transferred (at a point in time, i.e. when an adoption occurs or a veterinarian service is provided) to the Society's customers, in an amount that depicts the consideration the Society expects to be entitled to in exchange for those services. Revenue is not recognized unless collectability under the contract is considered probable, the contract has commercial substance and the contract has been approved. Additionally, the contract must contain payment terms, as well as the rights and commitments of both parties.

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, 2019 or 2018. The Society maintains its cash and cash equivalents with high-credit quality financial institutions. At December 31, 2019, the cash balances exceed federally insured limits by approximately \$3,216,303. 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 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 6). 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 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.

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Notes to Financial Statements
December 31, 2019
(With Comparative Totals for December 31, 2018)

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 net assets with donor restrictions.

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. The Society applies various methods to allocate costs among the programs and support functions, the most significant of which is by the amount of time and effort by employees or square footage on building space utilized.

Advertising costs

The Society expenses the cost of advertising as incurred. Advertising costs charged to operations during the years ended December 31, 2019 and 2018 were \$181,233 and \$155,155, 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, 2019 or 2018. The Society's federal information returns prior to fiscal year 2016 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 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.

Subsequent events

In preparing these financial statements, management has evaluated subsequent events through May 20, 2020, which represents the date the financial statements were available to be issued. See Note 12 - Subsequent events.

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Notes to Financial Statements
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(With Comparative Totals for December 31, 2018)

Note 2 - Liquidity and availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Total assets, end of year	\$ 97,565,125	\$ 83,507,874
Less nonfinancial assets		
Prepaid expenses and other current assets	(149,475)	(178,104)
Property and equipment, net	(5,837,730)	(6,112,523)
Investments held in trust by others	<u>(16,431,790)</u>	<u>(14,147,763)</u>
Financial assets, end of year	75,146,130	63,069,484
Less those unavailable for general expenditure within one year due to		
Contractual or donor-imposed restrictions		
Restricted by donors for capital campaign purposes	(2,284,365)	(1,602,516)
Board-designated endowments	(69,144,924)	(60,273,774)
Expected to be available for general expenditure within one year		
Pay-out on board-designated endowment for use over next 12 months	<u>3,159,846</u>	<u>3,776,682</u>
Financial assets available for general expenditure within one year	<u>\$ 6,876,687</u>	<u>\$ 4,969,876</u>

The Society regularly monitors liquidity required to meet its operating needs while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Society considers all expenditures related to its ongoing mission-related activities as well as services undertaken to support these activities to be operating expenditures.

The Society's governing board has designated approximately \$69,000,000 of its net assets without donor restrictions to function as an endowment and for other purposes. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income, but remain available and may be spent at the discretion of the Board of Directors.

Note 3 - 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, 2019 and 2018, the Society's account held by the trust was \$89,558 and \$50,817, respectively. These amounts are included in cash on the statements of financial position and there

Connecticut Humane Society

Notes to Financial Statements

December 31, 2019

(With Comparative Totals for December 31, 2018)

was no estimated claim liability as of December 31, 2019 and 2018. Per the contract with 501(c) Agencies Trust, the Society has the ability to withdraw funds if accumulated contributions exceed the estimated liability.

Note 4 - Contributions receivable

Unconditional promises to give as of December 31, 2019 and 2018 are due to be collected as follows:

	2019	2018
Receivables due in less than 1 year	\$ 321,805	\$ 231,499
Receivables due in 1-5 years	370,517	238,167
	692,322	469,666
Less discount to present value (5.5%)	(40,725)	(24,413)
	\$ 651,597	\$ 445,253

There is no allowance for doubtful accounts as of December 31, 2019 and 2018.

Note 5 - Investments

The following is a schedule of the fair values and composition of investments at December 31, 2019 and 2018:

	2019		2018	
	Fair value	% of Total	Fair value	% of Total
Domestic equities	\$ 30,496,234	43%	\$ 26,521,259	44%
Mutual funds	15,691,025	22%	13,265,230	22%
International developed equities	1,886,329	3%	1,509,980	2%
U.S. Government bonds	12,045,137	17%	9,686,254	16%
Corporate bonds	8,424,237	12%	8,270,717	13%
Municipal bonds	181,235	0%	128,775	0%
Money market funds	2,201,279	3%	2,119,596	3%
	\$ 70,925,476	100%	\$ 61,501,811	100%

The Society has established a separate investment account into which collections related to its capital campaign are deposited. The balance in this account at December 31, 2019 and 2018 was \$1,778,295 and \$1,225,538, respectively.

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Notes to Financial Statements
December 31, 2019
(With Comparative Totals for December 31, 2018)

Note 6 - Fair value measurements

The Society values its financial assets 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, 2019 and 2018 have been categorized in the tables below based upon the fair value hierarchy described above:

<u>December 31, 2019</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Domestic equities	\$ 30,496,234	\$ 30,496,234	\$ -	\$ -
Mutual funds	15,691,025	15,691,025	-	-
International developed equities	1,886,329	1,886,329	-	-
U.S. Government bonds	12,045,137	-	12,045,137	-
Corporate bonds				
Investment grade taxable	7,990,037	-	7,990,037	-
International developed bonds	<u>434,200</u>	<u>-</u>	<u>434,200</u>	<u>-</u>
Total corporate bonds	8,424,237	-	8,424,237	-
Municipal bonds	181,235	-	181,235	-
Money market funds	<u>2,201,279</u>	<u>2,201,279</u>	<u>-</u>	<u>-</u>
Total investments at fair value	70,925,476	50,274,867	20,650,609	-
Investments held in trust by others	<u>16,431,790</u>	<u>-</u>	<u>-</u>	<u>16,431,790</u>
	<u>\$ 87,357,266</u>	<u>\$ 50,274,867</u>	<u>\$ 20,650,609</u>	<u>\$ 16,431,790</u>

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<u>December 31, 2018</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Domestic equities	\$ 26,521,259	\$ 26,521,259	\$ -	\$ -
Mutual funds	13,265,230	13,265,230	-	-
International developed equities	1,509,980	1,509,980	-	-
U.S. government bonds	9,686,254	-	9,686,254	-
Corporate bonds				
Investment grade taxable	7,498,641	-	7,498,641	-
International developed bonds	772,076	-	772,076	-
Total corporate bonds	8,270,717	-	8,270,717	-
Municipal bonds	128,775	-	128,775	-
Money market funds	2,119,596	2,119,596	-	-
Total investments at fair value	61,501,811	43,416,065	18,085,746	-
Investments held in trust by others	14,147,763	-	-	14,147,763
	<u>\$ 75,649,574</u>	<u>\$ 43,416,065</u>	<u>\$ 18,085,746</u>	<u>\$ 14,147,763</u>

Investments in domestic equities and international developed equities 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 Trusts' 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 Trusts 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, 2019 and 2018.

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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 years ended December 31, 2019 and 2018.

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, 2019 and 2018:

	Investments held in trust by others
Balance, January 01, 2018	\$ 16,253,531
Change in fair value	(2,105,768)
Balance, December 31, 2018	14,147,763
Change in fair value	2,284,027
Balance, December 31, 2019	\$ 16,431,790

Note 7 - Property and equipment

Property and equipment at December 31, 2019 and 2018 were as follows:

	2019	2018
Land	\$ 110,380	\$ 110,380
Buildings and improvements	9,856,340	9,801,755
Equipment	1,099,860	1,044,078
Furniture and fixtures	139,725	139,725
	11,206,305	11,095,938
Less accumulated depreciation	5,368,575	4,983,415
	\$ 5,837,730	\$ 6,112,523

Depreciation expense for the years ended December 31, 2019 and 2018 was \$385,161 and \$383,853, respectively.

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Note 8 - Net assets with donor restrictions

Net assets restricted by time or purpose consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Together forever capital campaign	\$ 2,284,365	\$ 1,602,516
Restricted for program services	13,167	99,480
Capital projects	<u>31,749</u>	<u>-</u>
Net assets with donor restrictions, time or purpose	<u>\$ 2,329,281</u>	<u>\$ 1,701,996</u>

Net assets with perpetual restrictions 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 net assets without donor restrictions. Net assets with donor restrictions, perpetual consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investments held in trust by others	<u>\$ 16,431,790</u>	<u>\$ 14,147,763</u>
Net assets with donor restrictions, perpetual	<u>\$ 16,431,790</u>	<u>\$ 14,147,763</u>

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

	<u>2019</u>	<u>2018</u>
Program services	\$ 136,313	\$ 61,417
Capital projects	<u>30,529</u>	<u>23,500</u>
	<u>\$ 166,842</u>	<u>\$ 84,917</u>

Note 9 - 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 net assets with

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perpetual donor restrictions (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.

The remaining portion of the donor-restricted endowment fund that is not classified as net assets with perpetual donor restrictions is classified as net assets with time or purpose donor restrictions 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, 2019 and 2018, are as follows:

	<u>Without donor restrictions</u>
Endowment net assets, January 01, 2018	\$ 64,761,720
Investment loss, net	(1,379,579)
Appropriation for expenditure	<u>(3,108,367)</u>
Endowment net assets, December 31, 2018	60,273,774
Investment return, net	11,923,436
Appropriation for expenditure	<u>(3,052,286)</u>
Endowment net assets, December 31, 2019	<u>\$ 69,144,924</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-

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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.

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, 2019 and 2018, of its endowment fund's average fair value over the prior 12 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 10 - 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, 2019 and 2018, the discretionary employer contribution was 5% of eligible compensation. The Society's expense for the years ended December 31, 2019 and 2018 was \$291,111 and \$292,704, 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, 2019 and 2018, the discretionary employer contribution was 5% of eligible compensation. The Society's matching contribution expense for the years ended December 31, 2019 and 2018 was \$23,174 and \$33,237, respectively.

Note 11 - 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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Note 12 - Subsequent events

COVID-19

In early 2020, an outbreak of a novel strain of coronavirus that causes COVID-19 emerged globally. As a result, events have occurred, including mandates from federal, state and local authorities leading to significant declines in customer visits and closures of businesses, including certain of the Society's locations. The Society's Waterford and Westport locations temporarily closed beginning in March 2020. The main office in Newington was closed for adoptions and only accepting emergency pet intakes. The Fox Clinic in Newington remained open for urgent medical issues by appointment only. The significant reduction in customer visits to, and spending at, the Society's locations caused by these closures have resulted in a loss of revenue and other material adverse effects to the Society's financial position, results of operations, and cash flows. Further, the overall decline in economic activity has adversely affected the performance of the Society's investments. The Society is not able to estimate the length or severity of this outbreak and the related financial impact at this time.

Payroll protection program loan

On April 18, 2020, the Society received a loan for \$900,000 from Webster Bank through the Small Business Association's Payroll Protection Program to cover payroll and utility costs. The loan bears interest at 1% and will be paid in 29 monthly installments of \$50,396.77 beginning on November 18, 2020. However, per the loan agreement, the loan will be forgiven if the funds are used to cover payroll and utility costs, which the Society fully anticipates.

Wilton location

In 2020, the Society entered in to an agreement to purchase property in Wilton, Connecticut to serve as their new location in Fairfield County. The purchase price of the property was \$1,300,000.



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