

**CHARLESTON ANIMAL SOCIETY**

**FINANCIAL REPORT**

**DECEMBER 31, 2013**

**CHARLESTON ANIMAL SOCIETY**

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CONTENTS	Page No.
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 22



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Charleston Animal Society  
North Charleston, South Carolina

We have audited the accompanying financial statements of Charleston Animal Society which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expense and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charleston Animal Society and its subsidiaries as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Hubert Davis CPA, LLP*

Mount Pleasant, South Carolina  
April 28, 2014

**CHARLESTON ANIMAL SOCIETY**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31,**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents, unrestricted	\$ 817,102	\$ 1,049,442
Investments, at market, short-term	230,000	234,455
Accounts receivables	146,361	159,307
Unconditional promises to give, net	43,966	69,873
Bequest receivable, short-term	100,000	-
Prepaid expense	24,041	16,185
Inventories	40,923	60,676
Total current assets	<u>1,402,393</u>	<u>1,589,938</u>
<b>PROPERTY AND EQUIPMENT</b>		
Building and land - non depreciable	410,000	400,000
Property and equipment, net	7,889,132	8,097,345
Total property and equipment	<u>8,299,132</u>	<u>8,497,345</u>
<b>OTHER ASSETS</b>		
Investments, at market, long-term	2,068,207	1,957,576
Beneficiary interest in perpetual trusts held by others	1,046,678	936,106
Bequest receivable, long-term	5,951,047	-
Total other assets	<u>9,065,932</u>	<u>2,893,682</u>
<b>TOTAL ASSETS</b>	<u>\$ 18,767,457</u>	<u>\$ 12,980,965</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expense:	\$ 59,600	\$ 119,847
Payroll related liabilities	63,056	28,152
Note payable - current portion	240,688	220,000
Total current liabilities	<u>363,344</u>	<u>367,999</u>
<b>LONG-TERM LIABILITIES</b>		
Note payable	1,562,479	1,743,878
Total long-term liabilities	<u>1,562,479</u>	<u>1,743,878</u>
<b>TOTAL LIABILITIES</b>	<u>1,925,823</u>	<u>2,111,877</u>
<b>NET ASSETS</b>		
Unrestricted net assets	8,803,597	9,108,200
Temporarily restricted net assets	6,491,359	324,782
Permanently restricted net assets	1,546,678	1,436,106
Total net assets	<u>16,841,634</u>	<u>10,869,088</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 18,767,457</u>	<u>\$ 12,980,965</u>

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 1,723,573	\$ 6,170,393	\$ -	\$ 7,893,966
Program and service	493,253	221,564	-	714,817
Government service contract	888,621	-	-	888,621
Special events, net of \$27,923 expenses	239,350	-	-	239,350
Investment income, net of \$27,554 in fees	41,391	-	-	41,391
Realized gains on investments	41,045	-	-	41,045
Unrealized gains on investments	253,248	-	-	253,248
Change in value of beneficiary interest	-	-	110,572	110,572
Bingo income	50,186	-	-	50,186
	<u>3,730,667</u>	<u>6,391,957</u>	<u>110,572</u>	<u>10,233,196</u>
Net assets released from restrictions	<u>225,380</u>	<u>(225,380)</u>	<u>-</u>	<u>-</u>
Total support and revenues	3,956,047	6,166,577	110,572	10,233,196
<b>EXPENSES</b>				
Program and services	3,601,626	-	-	3,601,626
Management	195,226	-	-	195,226
Fundraising	463,798	-	-	463,798
	<u>4,260,650</u>	<u>-</u>	<u>-</u>	<u>4,260,650</u>
Total expenses	4,260,650	-	-	4,260,650
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(304,603)	6,166,577	110,572	5,972,546
<b>NET ASSETS, beginning of year</b>	<u>9,108,200</u>	<u>324,782</u>	<u>1,436,106</u>	<u>10,869,088</u>
<b>NET ASSETS, end of year</b>	<u>\$ 8,803,597</u>	<u>\$ 6,491,359</u>	<u>\$ 1,546,678</u>	<u>\$ 16,841,634</u>

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 1,567,016	\$ 173,157	\$ -	\$ 1,740,173
Program and service	317,587	398,420	-	716,007
Government service contract	855,999	-	-	855,999
Investment income, net of \$17,637 in fees	53,453	-	-	53,453
Realized gains on investments	14,921	-	-	14,921
Unrealized gains on investments	138,535	-	-	138,535
Change in value of beneficiary interest	-	-	81,203	81,203
Bingo income	39,293	-	-	39,293
	<u>2,986,804</u>	<u>571,577</u>	<u>81,203</u>	<u>3,639,584</u>
Net assets released from restrictions	<u>668,334</u>	<u>(668,334)</u>	<u>-</u>	<u>-</u>
Total support and revenues	3,655,138	(96,757)	81,203	3,639,584
<b>EXPENSES</b>				
Program and services	3,120,167	-	-	3,120,167
Management	133,513	-	-	133,513
Fundraising	288,843	-	-	288,843
	<u>3,542,523</u>	<u>-</u>	<u>-</u>	<u>3,542,523</u>
Total expenses	3,542,523	-	-	3,542,523
<b>INCREASE (DECREASE) IN NET ASSETS</b>				
	112,615	(96,757)	81,203	97,061
<b>NET ASSETS, beginning of year</b>	<u>8,995,585</u>	<u>421,539</u>	<u>1,354,903</u>	<u>10,772,027</u>
<b>NET ASSETS, end of year</b>	<u>\$ 9,108,200</u>	<u>\$ 324,782</u>	<u>\$ 1,436,106</u>	<u>\$ 10,869,088</u>

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program and Services	Manage- ment	Fund- raising	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
Salaries	\$ 1,624,173	\$ 100,747	\$ 194,549	\$ 1,919,469
Employee benefits	162,807	10,014	4,537	177,358
Payroll taxes	<u>123,596</u>	<u>6,271</u>	<u>15,179</u>	<u>145,046</u>
Total compensation and related expenses	1,910,576	117,032	214,265	2,241,873
<b>OTHER EXPENSES</b>				
Shelter expenses	558,190	-	-	558,190
Clinic expenses	184,323	-	-	184,323
Education expenses	19,398	-	-	19,398
Public relations	88,757	-	175,757	264,514
Utilities	178,390	32,354	210	210,954
Interest	47,516	-	-	47,516
Grant expense	38,743	-	-	38,743
Insurance	48,748	-	-	48,748
Building maintenance	28,971	14,080	17,398	60,449
Professional fees	8,000	11,260	6,000	25,260
Office expense	80,837	-	-	80,837
Employee training	24,736	3,660	3,193	31,589
Bank fees	19,261	3,470	18,014	40,745
Automobile	10,046	101	-	10,147
Travel and entertainment	1,316	3,918	1,497	6,731
Bad debt	-	-	18,257	18,257
Miscellaneous	<u>49,119</u>	<u>9,351</u>	<u>9,207</u>	<u>67,677</u>
<b>TOTAL EXPENSES BEFORE</b>				
<b>DEPRECIATION</b>	3,296,927	195,226	463,798	3,955,951
Depreciation	<u>304,699</u>	<u>-</u>	<u>-</u>	<u>304,699</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 3,601,626</u>	<u>\$ 195,226</u>	<u>\$ 463,798</u>	<u>\$ 4,260,650</u>

See accompanying notes and independent auditors' report.



**CHARLESTON ANIMAL SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program and Services	Manage- ment	Fund- raising	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
Salaries	\$ 1,415,460	\$ 79,143	\$ 108,982	\$ 1,603,585
Employee benefits	134,588	7,279	3,902	145,769
Payroll taxes	<u>114,476</u>	<u>6,101</u>	<u>8,603</u>	<u>129,180</u>
Total compensation and related expenses	1,664,524	92,523	121,487	1,878,534
<b>OTHER EXPENSES</b>				
Shelter expenses	298,276	99	87	298,462
Clinic expenses	159,918	-	-	159,918
Education expenses	15,946	-	-	15,946
Public relations	84,439	19,948	106,907	211,294
Utilities	198,786	2,627	1,081	202,494
Interest	109,013	-	4,020	113,033
Grant expense	60,442	-	3,397	63,839
Insurance	43,595	725	-	44,320
Building maintenance	45,346	-	-	45,346
Professional fees	35,061	9,241	-	44,302
Office expense	36,594	4,007	13,057	53,658
Employee training	19,086	1,740	2,918	23,744
Bank fees	19,171	2,360	9,354	30,885
Automobile	9,816	-	-	9,816
Travel and entertainment	7,870	243	1,052	9,165
Bad debt	-	-	25,483	25,483
Miscellaneous	<u>13,161</u>	<u>-</u>	<u>-</u>	<u>13,161</u>
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	2,821,044	133,513	288,843	3,243,400
Depreciation	<u>299,123</u>	<u>-</u>	<u>-</u>	<u>299,123</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 3,120,167</u>	<u>\$ 133,513</u>	<u>\$ 288,843</u>	<u>\$ 3,542,523</u>

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31,**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 5,972,546	\$ 97,061
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	304,699	299,123
Net (gains) on investments	(294,292)	(153,456)
Change in beneficiary interest in trust	(110,572)	(81,203)
Decrease (increase) in current assets:		
Accounts receivable	12,946	(38,279)
Unconditional promises to give	25,906	221,088
Bequest receivable	(6,051,047)	-
Prepaid expenses	(7,856)	(16,185)
Accrued investment income	-	12,147
Inventory	19,753	(22,678)
Increase (decrease) in operating liabilities:		
Accounts payable	(60,246)	33,672
Payroll related liabilities	34,903	28,152
Deferred grant revenue	-	(109,497)
Net cash provided (used) by operating activities	(153,260)	269,945
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(106,485)	(29,927)
Proceeds from sale of securities	244,300	421,957
Purchase of securities - net reinvested earnings	(56,184)	(490,034)
Net cash provided (used) in investing activities	81,631	(98,004)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Refinancing of bonds	-	89,372
Payments on bonds	-	(2,220,000)
Proceeds on notes payable	64,047	2,035,545
Payments on note payable	(224,758)	(86,763)
Net cash (used) in financing activities	(160,711)	(181,846)
Net decrease in unrestricted cash and cash equivalents	(232,340)	(9,905)
Cash and cash equivalents as of beginning of year	1,049,442	1,059,347
Cash and cash equivalents as of end of year	\$ 817,102	\$ 1,049,442
<b>Supplemental Disclosures:</b>		
Noncash investing and financing activities:		
Unrecognized gains	\$ 253,248	\$ 138,535
Assets donated for use	\$ 10,000	\$ -
Interest paid	\$ 47,516	\$ 113,033
Taxes paid	\$ -	\$ -

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Charleston Animal Society (the Society) is a nonprofit corporation organized in 1874 to prevent cruelty to animals. The Society is located in North Charleston, South Carolina in a state of the art facility combining the shelter, clinic, and corporate offices in one location which enables the animals to receive the best care. The Society purpose of preventing cruelty to animals is accomplished through a variety of programs:

Finding homes for homeless animals – this is accomplished through adoptions, return to owners and a free roaming cat initiative.

Fighting cruelty wherever it exists – assisting law enforcement with investigations and intervention in order to hold those responsible for their crimes.

Helping youth understand science through a veterinary science initiative which enables students to become involved in different areas of education.

Containing outbreaks of deadly diseases - by offering rabies vaccinations to animals in the community the Society helps to eradicate this disease at an affordable cost.

Reuniting animals with their owners through an in-depth lost and found program.

Preventing births of unwanted animals through a high-volume, high-quality affordable spay/neuter initiative.

Saving the lives of abused and abandoned animals through a holistic treatment regimen.

Guiding children to grow into humanitarians through a comprehensive humane education initiative.

Fighting hunger when food is unaffordable through a nonjudgmental pet-focused food bank.

**Basis of Accounting**

The financial statements of the Charleston Animal Society have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in accordance with FASB Accounting Standards Codification (ASC) 958-205 and subsections. The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Society is required to present a Statement of Cash Flows.

**Cash and Cash Equivalents**

For the purposes of the Statement of Cash Flows, the Society considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. This includes cash in banks and money market funds.

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Receivables**

The Society may from time to time have grant receivables from grantors. There were grant receivables of \$146,361 and \$159,307 as of December 31, 2013 and 2012.

**Promises to Give**

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Society uses the allowance method to account for uncollectible promises to give. The allowance is based on management's estimate of the collectability of the promises and historical experience.

**Investments**

The Society investments consist primarily of assets invested in marketable equity and debt securities, alternative investments, commodities, and money-market accounts. The Society accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statement of financial position. Fair value of marketable equity and debt securities is based on quoted market prices.

Alternative investments are stated at the fair value of their underlying assets and allocated to the net asset funds in proportion to the fund's ownership percentage. The realized and unrealized gain or loss on investments is reflected in the statement of activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Investment income is recorded net of investment expenses. Realized gains or losses on investments are determined by comparison of specific cost of acquisition to proceeds at the time of disposal. Unrealized gains or losses are calculated by comparing cost to market values at the statement of financial position date. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 1- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Continued

**Property and Equipment**

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Expenditures for major additions and improvements, generally in excess of \$300, are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of the operations for the respective period. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

**Beneficial Interest in Perpetual Trusts**

Perpetual trusts are held by a third party under an arrangement where the Society has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The trust assets are recorded at fair value as beneficial interest in the trust, a long term asset and contribution of new trust under permanently restricted support, if donated to the Society or amounts held on behalf of the Society, depending on the terms. Annual distributions are reported as unrestricted contribution income or amounts raised on behalf of the Society. Trust assets are based on the lesser of the present value of future cash flows from the trusts or the fair value of the trusts' underlying investments. Change in value of beneficiary interests are recorded as permanently restricted.

**Endowment Funds**

For the fiscal year end December 31, 2008, South Carolina adopted the State Prudent Management of Institutional Funds Act (SPMIFA). The Board of Directors of 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. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original gifts donated to the permanent endowment, (b) 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, 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 fund
- (2) The purposes of the organization 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

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 1- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Continued

**Endowment Funds - Continued**

*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 those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index or similar established broad market measures of return on investments.

*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 an emphasis on equity-based investments and bond funds 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 each year four to five percent of its selected endowment fund's moving average fair value over the three years preceding the fiscal year in which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of four to five percent annually. 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.

**Fair Value of Financial Instruments**

The carrying amounts of financial instruments, including cash and cash equivalent, money market funds, receivables and accounts payable approximate fair value because of the short maturity of those financial instruments.

**Compensated Absences**

Employees earn vacation at various rates depending on their status as non-exempt and exempt, job classification and years of service. Vacation increases by five (5) days at each job classification after two (2) years and five (5) years. Unused vacation carryover is allowed. A liability was recorded for estimated unused vacation as of December 31, 2013 and 2012 of \$62,809 and \$26,880.

**Donated Assets**

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 1- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Continued

**Donated Services**

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Society's program services and its fundraising campaigns, the value of which is not recorded in the accompanying financial statements. Professional services were recorded for the years ended December 31, 2013 and 2012 of \$36,714 and \$4,585.

**Revenue Recognition**

In accordance with Standards FASB ASC 958-50, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Society reports contributions as restricted support if they are received with donor stipulations that limit the use of the donation. 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 Statement of Activities as net assets released from restriction. The Society reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. It is the Society's policy to record restricted contributions received and released in the same year as unrestricted support.

**Expense Allocation**

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Society providing those services.

**Advertising**

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expense total \$-0- for the years ended December 31, 2013 and 2012.

**Income Tax Status**

The Society is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law as a charitable organization whereby only unrelated business income, as defined by Section 509(a)(1) of the Code is subject to federal income tax. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an association other than a private Society under Section 509(a)(2).

The Society currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. With few exceptions, the Society is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 1- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Continued

**Reclassifications**

Certain amounts from the prior years have been reclassified to conform to the 2013 presentation without affecting the previously reported net assets.

**NOTE 2 - PROMISES TO GIVE**

The Society held a fund raising campaign in for the construction of a new facility in 2005 and pledges were made. The promises to give are considered temporarily restricted as they are for donor designated for debt service. It is the Society's policy to discount promises to give of more than one year at a rate of 3%. As all pledges are due within one year, they are not discounted. Uncollectible promises to give have been estimated based on past history by management. A summary of the pledges receivable (unconditional promises to give) are due as follows as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning promise to give	\$ 103,873	\$ 290,961
Pledge commitments	3,500	31,250
Pledge payments	(11,150)	(192,855)
Adjustments and write-offs	(18,257)	(25,483)
	<u>77,966</u>	<u>103,873</u>
Less allowance for bad debt	(34,000)	(34,000)
Ending promise to give balance, designated for new shelter	<u>\$ 43,966</u>	<u>\$ 69,873</u>



**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 3 – BEQUEST RECEIVABLE**

The Society is a beneficiary to an estate trust. The bequest will be paid out over several years as assets are available and as advised by the Trustee. There are no restrictions on the funds from the original estate trust agreement; however the Trustee may stipulate restrictions as necessary to honor the donor’s wishes. The bequest receivable is discounted at the federal prime rate of 3.25%. Bequest receivable activity for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Beginning bequest receivable	\$ -	\$ -
Bequest receivable	6,640,480	-
Bequest payments	-	-
	<u>6,640,480</u>	<u>-</u>
Less cash discount	(589,433)	-
Ending bequest receivable	<u>\$ 6,051,047</u>	<u>\$ -</u>
Current portion	\$ 100,000	\$ -
Two to five years	<u>5,951,047</u>	<u>-</u>
Total bequest receivable	<u>\$ 6,051,047</u>	<u>\$ -</u>

**NOTE 4 - INVESTMENTS**

Investments held by the Society are in various accounts at a national brokerage firm. Investment fees are netted against gains and losses. Investments are stated at fair market value and consist of the following at December 31, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Real estate partnerships	\$ 29,529	\$ 23,700	\$ 78,864	\$ 84,498
Mutual funds				
Fixed Income	563,938	565,380	609,031	587,181
Equities	1,650,322	1,342,866	1,494,400	1,374,515
Securities	<u>54,418</u>	<u>57,403</u>	<u>9,736</u>	<u>7,302</u>
	<u>\$ 2,298,207</u>	<u>\$ 1,989,349</u>	<u>\$ 2,192,031</u>	<u>\$ 2,053,496</u>

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 4 - INVESTMENTS - Continued**

Investment Maturities

Maturities for the above listed investments as of December 31, 2013 and 2012 are as follows:

Short-term investments equals		
Current portion of building		
debt for following year	\$ 230,000	\$ 234,455
Long-term investments	<u>2,068,207</u>	<u>1,957,576</u>
	<u>\$ 2,298,207</u>	<u>\$ 2,192,031</u>

The following schedule summarizes the investment return in the Statement of Activities for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning Investment Balance	\$ 2,192,031	\$ 2,825,401
Interest/dividends	68,835	71,089
Management fees	(27,554)	(17,637)
Realized gains/(losses)	151,617	14,921
Unrealized gains/(losses)	253,248	138,535
Contributions/pledge payments	21,003	173,157
Withdrawals/distributions	(502,505)	(186,155)
Reclassification of beneficiary		
interest in trust	-	(854,903)
Less net cash equivalents	<u>141,532</u>	<u>27,623</u>
Ending Investment Balance	<u>\$ 2,298,207</u>	<u>\$ 2,192,031</u>

*Continue on the next page*

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 5 - SUMMARY OF FAIR VALUE EXPOSURE**

ASC 820 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

- Level 1: Quoted prices in active markets for identical securities
- Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)
- Level 3: Significant unobservable inputs (including the Society's own assumptions in determining the fair value of investments)

For the years ended December 31, 2013 and 2012, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

*Common stock:* The Society's common stock securities are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets. (Level 1 inputs- market approach).

*Fixed income securities:* Fair values of U.S. Government securities reflect closing prices reported in the active markets in which the securities are traded. (Level 1 inputs -market approach).

*Fixed income and equity mutual funds:* The fair value of investments in fixed income and equity mutual funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs- market approach).

*Real Estate:* Society real estate holdings consist of an investment in a publicly traded real estate investment trust. The fair value of this investment is readily marketable and is determined by obtaining quoted prices on a nationally recognized securities exchange (level 1 inputs- market approach).

*Beneficial interest in assets held by others:* The fair value of beneficial interests in trust assets was determined based upon the present value of future cash flows from the trusts, an amount no greater than the asset value of the trust. The trust cannot be redeemed by management. (Level 3 inputs- income approach)

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 5 - SUMMARY OF FAIR VALUE EXPOSURE - Continued**

The following tables provide fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 29,529	\$ -	\$ -	\$ 29,529
Mutual Funds	2,214,260	-	-	2,214,260
Securities & security portfolios	54,418	-	-	54,418
Bequest receivable	-	-	6,051,047	6,051,047
Beneficiary interest in perpetual trust held by others	-	-	1,046,678	1,046,678
	\$ 2,298,207	\$ -	\$ 7,097,725	\$ 9,395,932

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 78,864	\$ -	\$ -	\$ 78,864
Mutual Funds	2,103,431	-	-	2,103,431
Securities & security portfolios	9,736	-	-	9,736
Beneficiary interest in perpetual trust held by others	-	-	936,106	936,106
	\$ 2,192,031	\$ -	\$ 936,106	\$ 3,128,137

The inputs and methodology used for valuing the Society's financial assets and liabilities are not indicators of the risks associated with those instruments.

Management evaluated the significant transfers between levels based upon the nature of the financial instrument and size of the transfer related to investments. For the years ended December 31, 2013 and 2012, there were no significant transfers in or out of levels 1, 2, or 3.

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ended December 31, 2013 and 2012:

	2013	2012
Beginning balance	\$ 936,106	\$ 854,903
Change in value	6,202,019	120,203
Distribution to Society	(40,400)	(39,000)
	\$ 7,097,725	\$ 936,106

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 6 - ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS**

The Society's endowment consists of three individual funds established for the support of their mission. The endowment includes permanent restricted net assets. As required by U.S. generally accepted accounting principles, 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. Endowment net asset composition by type of fund as of December 31, 2013 and 2012 are as follows:

		2013			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contributions	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust Benefits Receivable	Operating	\$ 235,850	\$ -	\$ 25,395	\$ 261,245
Wells Fargo Jantzen Trust Benefits Receivable	Operating	700,256	-	85,177	785,433
Corpus of Community Foundation	Operating	500,000	-	-	500,000
		<u>\$ 1,436,106</u>	<u>\$ -</u>	<u>\$ 110,572</u>	<u>\$ 1,546,678</u>

		2012			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contributions	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust Benefits Receivable	Operating	\$ 215,360	\$ -	\$ 20,490	\$ 235,850
Wells Fargo Jantzen Trust Benefits Receivable	Operating	639,543	-	60,713	700,256
Corpus of Community Foundation	Operating	500,000	-	-	500,000
		<u>\$ 1,354,903</u>	<u>\$ -</u>	<u>\$ 81,203</u>	<u>\$ 1,436,106</u>

Change in endowment net assets for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Beginning Permanently Restricted	\$ 1,436,106	\$ 1,354,903
Change in value	150,972	120,203
Distribution	(40,400)	(39,000)
Ending Permanently Restricted	<u>\$ 1,546,678</u>	<u>\$ 1,436,106</u>

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 6 - ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS - Continued**

Permanently restricted net assets include the endowment fund assets; to be held indefinitely. The income from the assets may be used to support the Society's activities, subject to donor-imposed restrictions. The Society's policy for determining the portion of endowment earnings permitted to be included in operations is controlled by the trustees of the funds, generally 4 – 6 % of a three year moving average of the trust's market value; these funds are distributed from the trustee to the Society. Only the permanently restricted corpus remains in the endowment. Endowment beneficiary interest in perpetual trust transferred \$40,400 and \$39,000 and the Community Foundation disbursed \$22,347 and \$28,360 from the endowment to support general operations in 2013 and 2012. These distributions were recognized in contributions.

The investment income related to the permanently restricted funds has been accounted for within temporarily and permanently restricted investment earnings on the Statements of Activities. There were no contributions to the permanently restricted corpus during years ended December 31, 2013 and 2012.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

The Society has temporarily restricted net assets available for the following purposes and time restrictions as of December 31, 2013 and 2012:

Temporarily Restricted Net Assets Description	Purpose	2013			
		Beginning Balance	Contributions	Disbursements	Ending Balance
PetSmart grant	Spay/Neuter	\$ 44,320	\$ 199,960	\$ (69,145)	\$ 175,135
PetSmart grant	Adoption	7,140	-	(7,140)	-
Shadowing at the shelter	Education	992	50	(1,042)	-
Bresnan grant - cameras	Equipment	243	-	(243)	-
ASPCA equipment					
Laptops/uniform	Equipment	10,446	-	(10,446)	-
ASPCA lost & found	Shelter	5,000	-	(5,000)	-
Baker grant for VSI					
Conference	Education	9,600	-	(9,600)	-
Pet for life	Demographic	-	20,000	-	20,000
Lisa fund	Spay/Neuter	14,455	1,554	(16,008)	1
	Spending				
Community foundation	policy	128,713	98,343	(22,347)	204,709
campaign	Debt Service	103,873	-	(63,406)	40,467
Bequest receivable	Shelter	-	6,051,047	-	6,051,047
Donor designated gifts transferred to ML	Debt Service	-	21,003	(21,003)	-
		<u>\$ 324,782</u>	<u>\$ 6,391,957</u>	<u>\$ (225,380)</u>	<u>\$ 6,491,359</u>

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS - Continued**

Temporarily Restricted Net Assets	Purpose	2012				
		Beginning Balance	Reclassify PY	Contributions	Disbursements	Ending Balance
PetSmart grant	Spay/Neuter	\$ -	\$ 45,530	\$ 100,000	\$ (101,210)	\$ 44,320
PetSmart grant	Adoption	-	33,700	-	(26,560)	7,140
American Honda Foundation grant	Program	-	30,267	-	(30,267)	-
Shadowing at the shelter	Education	-	-	1,000	(8)	992
Bresnan grant - cameras	Equipment	-	-	600	(357)	243
ASPCA equipment						
Laptops/uniform	Equipment	-	-	20,000	(9,554)	10,446
ASPCA lost & found	Shelter	-	-	30,000	(25,000)	5,000
Baker grant for VSI Conference	Education	-	-	10,000	(400)	9,600
Restricted for						
Berkley/Colleton	Demographic	41,091	-	22,000	(63,091)	-
Lisa fund	Spay/Neuter	22,236	-	1,717	(9,498)	14,455
Community foundation	Spending policy	62,682	-	72,356	(6,325)	128,713
Bond sinking fund	Debt Service	88,057	-	-	(88,057)	-
Bond sinking fund	Debt Service	5,988	-	-	(5,988)	-
campaign	Debt Service	201,485	-	31,250	(128,862)	103,873
Donor designated gifts transferred to ML	Debt Service	-	-	173,157	(173,157)	-
		<u>\$ 421,539</u>	<u>\$ 109,497</u>	<u>\$ 462,080</u>	<u>\$ (668,334)</u>	<u>\$ 324,782</u>

**NOTE 8 - PROPERTY & EQUIPMENT**

Property and equipment consist of the following as of December 31, 2013 and 2012:

	2013	2012
Depreciable assets:		
Furniture and equipment	\$ 580,216	\$ 483,730
Vehicles	71,258	71,258
Building	8,928,537	8,928,537
Total property and equipment	<u>9,580,011</u>	<u>9,483,525</u>
Less: accumulated depreciation	<u>(1,690,879)</u>	<u>(1,386,180)</u>
	7,889,132	8,097,345
Non depreciable assets:		
Building and land	410,000	400,000
Total property and equipment	<u>\$ 8,299,132</u>	<u>\$ 8,497,345</u>

Depreciation expense for the years ended December 31, 2013 and 2012 are \$304,699 and \$299,123.

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 9 - NOTE PAYABLE**

On May 15, 2012 the Society refinanced the outstanding bonds with a conventional term loan. The loan has fixed interest at 3.5% for three years and the monthly principal payments are \$17,917 from January to June 2013, \$18,750 July 2013 to June 2014 and \$19,583 from June 2014 to July 2015. Management plans to extend the conventional loan at the end of the three year term. The loan is collateralized by the Remount Road building. Bond loan origination of \$ 89,372 was written off in 2012 as the bonds were paid in full.

A radiograph machine was financed through a lease purchase agreement. The machine cost \$71,665 and the Society financed \$64,047 with monthly payments of \$1,440 including 12% interest through April 2018.

Total interest expense paid during the years ended December 31, 2013 and 2012 was \$47,516 and \$113,033. The future loan payments are as follows:

Year	Principal Payments
2014	\$ 240,688
2015	247,102
2016	248,703
2017	250,515
Thereafter	816,159
	<u>\$ 1,803,167</u>

**NOTE 10 - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Society to concentrations of credit risk consist of cash in banks; investments managed by brokerage firms and promise to give. The Society places its cash and investments with reputable financial institutions and limits the amount of credit exposure for cash to any one financial institution. Accounts held by banking institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 and cash in investment accounts is insured by the brokers insurance. As of December 31, 2013 and 2012, the Society had uninsured cash of \$155,103 and \$91,776.

**NOTE 11 - RETIREMENT PLAN**

The Society sponsors a qualified retirement plan under IRS Code SIMPLE IRA. The Society will match the employees' contributions up to 3% of compensation. Employees may contribute immediately to the plan once employed by the Society. The Society's retirement expense for the years ended December 31, 2013 and 2012 were \$15,584 and \$12,907.

**NOTE 12 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through April 28, 2014 the financial report date, and has concluded no significant subsequent events meet the criteria of professional accounting standards to be recognized or disclosed in the financial statements.