

CHARLESTON ANIMAL SOCIETY

FINANCIAL REPORT

DECEMBER 31, 2015

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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, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 as of December 31, 2015 and 2014, 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.

Hubbard Davis CPAs, LLP

March 15, 2016
Mount Pleasant, South Carolina

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

ASSETS	2015	2014
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 1,121,502	\$ 499,918
Investments, at market, short-term	50,000	241,415
Accounts receivables	191,080	46,672
Unconditional promises to give, net	248,587	32,737
Bequest receivable, short-term	-	100,000
Prepaid expense	33,000	24,292
Inventories	91,792	67,183
Total current assets	<u>1,735,961</u>	<u>1,012,217</u>
PROPERTY AND EQUIPMENT		
Building and land - non depreciable	400,000	400,000
Property and equipment, net	7,674,000	7,758,151
Total property and equipment	<u>8,074,000</u>	<u>8,158,151</u>
OTHER ASSETS		
Investments, at market, long-term	6,733,548	2,223,364
Beneficiary interest in perpetual trusts held by others	937,146	1,042,317
Bequest receivable, long-term	-	6,050,652
Total other assets	<u>7,670,694</u>	<u>9,316,333</u>
TOTAL ASSETS	<u>\$ 17,480,655</u>	<u>\$ 18,486,701</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 143,046	\$ 83,887
Payroll related liabilities	107,259	67,122
Note payable - current portion	-	253,517
Total current liabilities	<u>250,305</u>	<u>404,526</u>
LONG-TERM LIABILITIES		
Note payable	-	1,210,510
Total long-term liabilities	<u>-</u>	<u>1,210,510</u>
TOTAL LIABILITIES	<u>250,305</u>	<u>1,615,036</u>
NET ASSETS		
Unrestricted net assets	3,977,264	242,605
Board designated - property fund	8,074,000	8,158,151
Board designated - working capital fund	500,000	500,000
Board designated - endowment fund	3,122,515	-
Temporarily restricted net assets	619,425	6,428,592
Permanently restricted net assets	937,146	1,542,317
Total net assets	<u>17,230,350</u>	<u>16,871,665</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,480,655</u>	<u>\$ 18,486,701</u>

See accompanying notes and independent auditors' report.

CHARLESTON ANIMAL SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 2,450,955	\$ 841,602	\$ -	\$ 3,292,557
Program and service	1,097,708	-	-	1,097,708
Government service contract	1,272,503	-	-	1,272,503
Special events, net \$310,322 expense	417,577	-	-	417,577
Investment income, net of \$33,801 in fees	577,336	-	-	577,336
Realized loss on investments	(344,663)	-	-	(344,663)
Unrealized loss on investments	(299,307)	-	-	(299,307)
Change in value of beneficiary interest	-	-	(57,171)	(57,171)
Bingo income	16,056	-	-	16,056
	<u>5,188,165</u>	<u>841,602</u>	<u>(57,171)</u>	<u>5,972,596</u>
Net assets released from restrictions	<u>345,276</u>	<u>(297,276)</u>	<u>(48,000)</u>	<u>-</u>
Total support and revenues	5,533,441	544,326	(105,171)	5,972,596
EXPENSES				
Program and services	4,707,924	-	-	4,707,924
Management	165,243	-	-	165,243
Fundraising	740,744	-	-	740,744
	<u>5,613,911</u>	<u>-</u>	<u>-</u>	<u>5,613,911</u>
Total expenses	<u>5,613,911</u>	<u>-</u>	<u>-</u>	<u>5,613,911</u>
INCREASE (DECREASE) IN NET ASSETS	(80,470)	544,326	(105,171)	358,685
NET ASSETS, beginning of year	8,900,756	6,428,592	1,542,317	16,871,665
Reclassification - Pulleyn Bequest	6,150,652	(6,150,652)	-	-
Reclassification - Community Foundation	702,841	(202,841)	(500,000)	-
NET ASSETS, end of year	<u>\$ 15,673,779</u>	<u>\$ 619,425</u>	<u>\$ 937,146</u>	<u>\$ 17,230,350</u>

See accompanying notes and independent auditors' report.

CHARLESTON ANIMAL SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 1,576,270	\$ 385,233	\$ -	\$ 1,961,503
Program and service	1,013,265	-	-	1,013,265
Government service contract	1,096,266	-	-	1,096,266
Special events, net \$139,874 expense and \$30,000 direct benefit	196,930	-	-	196,930
Investment income, net of \$20,242 in fees	282,832	-	-	282,832
Realized gains on investments	325,505	-	-	325,505
Unrealized loss on investments	(339,384)	-	-	(339,384)
Change in value of beneficiary interest	-	-	(4,361)	(4,361)
Bingo income	36,023	-	-	36,023
	<u>4,187,707</u>	<u>385,233</u>	<u>(4,361)</u>	<u>4,568,579</u>
Net assets released from restrictions	<u>448,000</u>	<u>(448,000)</u>	<u>-</u>	<u>-</u>
Total support and revenues	4,635,707	(62,767)	(4,361)	4,568,579
EXPENSES				
Program and services	3,676,250	-	-	3,676,250
Management	321,207	-	-	321,207
Fundraising	541,091	-	-	541,091
	<u>4,538,548</u>	<u>-</u>	<u>-</u>	<u>4,538,548</u>
INCREASE (DECREASE) IN NET ASSETS	97,159	(62,767)	(4,361)	30,031
NET ASSETS, beginning of year	<u>8,803,597</u>	<u>6,491,359</u>	<u>1,546,678</u>	<u>16,841,634</u>
NET ASSETS, end of year	<u>\$ 8,900,756</u>	<u>\$ 6,428,592</u>	<u>\$ 1,542,317</u>	<u>\$ 16,871,665</u>

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program and Services	Manage- ment	Fund- raising	Total
COMPENSATION AND RELATED EXPENSES				
Salaries	\$ 2,149,832	\$ 126,461	\$ 252,922	\$ 2,529,215
Employee benefits	220,220	12,593	20,931	253,744
Payroll taxes	157,086	9,415	22,485	188,986
Total compensation and related expenses	2,527,138	148,469	296,338	2,971,945
OTHER EXPENSES				
Shelter expenses	712,417	-	-	712,417
Clinic expenses	197,511	-	-	197,511
Education expenses	28,256	-	-	28,256
Public relations	109,994	-	327,252	437,246
Utilities	213,735	-	26,375	240,110
Interest	42,342	-	-	42,342
Grant expense	24,352	-	-	24,352
Insurance	45,884	-	2,998	48,882
Building maintenance	77,148	-	3,273	80,421
Professional fees	132,332	-	-	132,332
Contract services	54,018	-	-	54,018
Office expense	109,323	1,038	13,448	123,809
Employee training	42,553	1,789	6,987	51,329
Bank fees	4,840	4,467	25,164	34,471
Automobile	16,739	-	-	16,739
Travel and entertainment	3,441	280	1,755	5,476
Bad debt	24,060	-	-	24,060
Miscellaneous	19,629	9,200	37,154	65,983
TOTAL EXPENSES BEFORE DEPRECIATION	4,385,712	165,243	740,744	5,291,699
Depreciation	322,212	-	-	322,212
TOTAL FUNCTIONAL EXPENSES	\$ 4,707,924	\$ 165,243	\$ 740,744	\$ 5,613,911

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program and Services	Manage- ment	Fund- raising	Total
COMPENSATION AND RELATED EXPENSES				
Salaries	\$ 1,551,235	\$ 287,266	\$ 76,604	\$ 1,915,105
Employee benefits	173,698	12,865	6,019	192,582
Payroll taxes	122,713	6,898	13,394	143,005
Total compensation and related expenses	1,847,646	307,029	96,017	2,250,692
OTHER EXPENSES				
Shelter expenses	582,002	-	-	582,002
Clinic expenses	167,407	-	-	167,407
Education expenses	24,466	-	-	24,466
Public relations	114,099	-	311,718	425,817
Utilities	211,551	-	25,815	237,366
Interest	42,728	-	-	42,728
Grant expense	23,802	-	-	23,802
Insurance	44,079	-	-	44,079
Building maintenance	78,308	-	-	78,308
Professional fees	66,761	-	-	66,761
Contract services	9,249	-	38,500	47,749
Office expense	74,340	-	10,664	85,004
Employee training	30,701	-	1,165	31,866
Bank fees	11,266	-	30,597	41,863
Automobile	13,348	-	-	13,348
Travel and entertainment	6,688	-	1,403	8,091
Miscellaneous	14,494	14,178	25,212	53,884
TOTAL EXPENSES BEFORE DEPRECIATION	3,362,935	321,207	541,091	4,225,233
Depreciation	313,315	-	-	313,315
TOTAL FUNCTIONAL EXPENSES	\$ 3,676,250	\$ 321,207	\$ 541,091	\$ 4,538,548

See accompanying notes and independent auditors' report.

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

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 358,685	\$ 30,031
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	322,212	313,315
Net loss on investments	595,970	22,601
Change in beneficiary interest in trust	105,171	4,361
Decrease (increase) in current assets:		
Accounts receivable	(144,408)	99,690
Unconditional promises to give	(215,850)	11,229
Bequest receivable	-	(99,605)
Prepaid expenses	(8,708)	(250)
Inventory	(24,609)	(26,260)
Increase (decrease) in operating liabilities:		
Accounts payable	59,161	24,285
Payroll related liabilities	40,137	4,067
Net cash provided (used) by operating activities	<u>1,087,761</u>	<u>383,464</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(238,061)	(182,324)
Proceeds from sale of real estate	1,182,500	10,000
Proceeds from sale of securities	5,498,386	2,409,909
Purchase of securities - net reinvested earnings	(5,444,975)	(2,599,093)
Net cash provided (used) in investing activities	<u>997,850</u>	<u>(361,508)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(1,464,027)	(339,140)
Net cash (used) in financing activities	<u>(1,464,027)</u>	<u>(339,140)</u>
Net increase (decrease) in unrestricted cash and cash equivalents	621,584	(317,184)
Cash and cash equivalents as of beginning of year	499,918	817,102
Cash and cash equivalents as of end of year	<u>\$ 1,121,502</u>	<u>\$ 499,918</u>
Supplemental Disclosures:		
Noncash investing and financing activities:		
Bequest receivable noncash payments:		
Stock transfer	\$ 4,921,524	\$ -
Real estate transfer	1,229,128	-
	<u>6,150,652</u>	<u>-</u>
Unrecognized losses	\$ (299,307)	\$ (339,384)
Assets donated for use	\$ -	\$ 10,000
Interest paid	\$ 42,342	\$ 42,728
Taxes paid	\$ -	\$ -

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

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 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 Statements of Cash Flows.

Cash and Cash Equivalents

For the purposes of the Statements 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.

Receivables

The Society may from time to time have grant receivables from grantors. There were grant receivables of \$191,080 and \$46,672 as of December 31, 2015 and 2014.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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

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 statements 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 Statements 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 Statements 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.

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 \$500, 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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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

Endowment Funds

For the 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

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 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 policy 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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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

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, 2015 and 2014 of \$107,125 and \$65,621.

Donated Assets

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

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, 2015 and 2014 of \$36,669 and \$27,361.

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, 2015 and 2014.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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

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 2012.

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.

Reclassifications

Certain amounts from the prior years have been reclassified to conform to the 2015 presentation without affecting the previously reported net assets. See Notes 6 and 7 for detail net asset reclassifications.

NOTE 2 - PROMISES TO GIVE

The Society held a fund raising campaign to establish a new initiative for No Kill No Harm and pledges were made. The promises to give are considered unrestricted as they are for an initiative to raise awareness for our No Kill No Harm movement.

It is the Society's policy to discount at the federal prime rate of 3.25% promises to give of more than one year. As all pledges are due within one year.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beginning promise to give	\$ 66,737	\$ 77,966
Pledge commitments	330,000	100,000
Pledge payments	<u>(97,600)</u>	<u>(111,229)</u>
	299,137	66,737
Less allowance for bad debt	<u>(50,550)</u>	<u>(34,000)</u>
Ending promise to give balance, designated for new shelter	<u>\$ 248,587</u>	<u>\$ 32,737</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 3 - BEQUEST RECEIVABLE

The Society is a beneficiary to an estate trust. The trust transferred stock of \$5,365,176 and real estate of \$1,229,128 in payment of the bequest receivable of \$6,540,480 and additional contribution of \$53,824. There are no donor restrictions on the funds. The bequest receivable was discounted at the federal prime rate of 3.25%. Bequest receivable activity for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Beginning bequest receivable	\$ 6,540,480	\$ 6,640,480
Bequest receivable	-	-
Bequest payments	<u>(6,540,480)</u>	<u>(100,000)</u>
	-	6,540,480
Less cash discount	<u>-</u>	<u>(389,828)</u>
Ending bequest receivable	<u><u>\$ -</u></u>	<u><u>\$ 6,150,652</u></u>
Current portion	\$ -	\$ 100,000
Two to five years	<u>-</u>	<u>6,050,652</u>
Total bequest receivable	<u><u>\$ -</u></u>	<u><u>\$ 6,150,652</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, 2015 and 2014:

	2015		2014	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Real estate partnerships	\$ 599,646	\$ 630,956	\$ 172,976	\$ 186,512
Money market	254,424	254,424	106,444	106,444
Mutual funds				
Fixed income	2,271,795	2,269,709	1,287,185	1,318,334
Equities	3,657,684	3,237,857	698,824	681,016
Securities	<u>-</u>	<u>-</u>	<u>199,350</u>	<u>203,000</u>
	<u><u>\$ 6,783,549</u></u>	<u><u>\$ 6,392,946</u></u>	<u><u>\$ 2,464,779</u></u>	<u><u>\$ 2,495,306</u></u>

Investment Maturities

Maturities for the above listed investments as of December 31, 2015 and 2014 are as follows:

	2015	2014
Short-term investments equals	\$ 50,000	\$ 241,415
Long-term investments	<u>6,733,549</u>	<u>2,223,364</u>
	<u><u>\$ 6,783,549</u></u>	<u><u>\$ 2,464,779</u></u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4 - INVESTMENTS - Continued

The following schedule summarizes the investment return in the Statements of Activities for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beginning Investment Balance	\$ 2,464,779	\$ 2,298,207
Interest/dividends	120,203	69,725
Management fees	(32,878)	(20,159)
Realized gains/(losses)	768,632	325,505
Unrealized gains/(losses)	(299,307)	(339,384)
Contributions/pledge payments	5,460,689	171,760
Withdrawals/distributions	<u>(1,698,569)</u>	<u>(40,875)</u>
Ending Investment Balance	<u>\$ 6,783,549</u>	<u>\$ 2,464,779</u>

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, 2015 and 2014, 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, 2015 AND 2014

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, 2015 and 2014:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 599,646	\$ -	\$ -	\$ 599,646
Money market	254,424			254,424
Mutual funds	5,929,479	-	-	5,929,479
Beneficiary interest in perpetual trust held by others	-	-	937,146	937,146
	<u>\$ 6,783,549</u>	<u>\$ -</u>	<u>\$ 937,146</u>	<u>\$ 7,720,695</u>

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 172,976	\$ -	\$ -	\$ 172,976
Money market	106,444			106,444
Mutual funds	1,986,009	-	-	1,986,009
Securities & security portfolios	199,350	-	-	199,350
Bequest receivable	-	-	6,150,652	6,150,652
Beneficiary interest in perpetual trust held by others	-	-	1,042,317	1,042,317
	<u>\$ 2,464,779</u>	<u>\$ -</u>	<u>\$ 7,192,969</u>	<u>\$ 9,657,748</u>

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, 2015 and 2014, 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, 2015 and 2014:

	2015	2014
Beginning balance	\$ 7,192,969	\$ 7,097,725
Change in value	245,455	241,744
Distribution to Society	(6,255,823)	(146,500)
	<u>\$ 937,146</u>	<u>\$ 7,192,969</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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.

The Community Foundation returned the endowment funds held by their organization in 2015 at the request of the Society. Through historical research by the Society and The Community Foundation, the origin of these funds were determined to be Board Designated endowment. After the funds were returned, the Society's Board unrestricted the funds in 2015 as indicated by the reclassification in the Statement of Activities. Endowment net asset composition by type of fund as of December 31, 2015 and 2014 are as follows:

		2015			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contribution Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust Benefits Receivable	Operating	\$ 258,283	\$ (12,000)	\$ (11,364)	\$ 234,919
Wells Fargo Jantzen Trust Benefits Receivable	Operating	784,034	(36,000)	(45,807)	702,227
Corpus of Community Foundation	Operating	500,000	(500,000)	-	-
		<u>\$ 1,542,317</u>	<u>\$ (548,000)</u>	<u>\$ (57,171)</u>	<u>\$ 937,146</u>

		2014			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contribution Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust Benefits Receivable	Operating	\$ 261,245	\$ (11,500)	\$ 8,538	\$ 258,283
Wells Fargo Jantzen Trust Benefits Receivable	Operating	785,433	(35,000)	33,601	784,034
Corpus of Community Foundation	Operating	500,000	-	-	500,000
		<u>\$ 1,546,678</u>	<u>\$ (46,500)</u>	<u>\$ 42,139</u>	<u>\$ 1,542,317</u>

Change in endowment net assets for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Beginning Permanently Restricted	\$ 1,542,317	\$ 1,546,678
Change in value	(57,171)	42,139
Reclassifications	(500,000)	-
Distribution	(48,000)	(46,500)
Ending Permanently Restricted	<u>\$ 937,146</u>	<u>\$ 1,542,317</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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 – 5 % 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 \$48,000 and \$46,500 and the Community Foundation disbursed \$-0- and \$22,347 from the endowment to support general operations in 2015 and 2014. These distributions were recognized in contributions. The Community Foundation disbursed the entire fund of \$702,841, which included \$500,000 reclassified from permanently restricted net assets and \$202,841 from temporarily restricted net assets, see Note 7.

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, 2015 and 2014.

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, 2015 and 2014:

		2015				
Temporarily Restricted Net Assets Description	Purpose	Beginning Balance	Contribu- tions	Disburse- ments	Reclassi- fications	Ending Balance
ASPCA	Pet Retention	\$ -	\$ 25,000	\$ -	\$ -	\$ 25,000
Bresnan grant - cameras	Bark Scholarships	2,470	-	(2,470)	-	-
Pet for life	Demographic	9,896	-	(9,896)	-	-
Festoon Foundation	Spay/Neuter	-	-	-	-	-
Community foundation	Spending policy No kill	233,837	-	(30,996)	(202,841)	-
No Kill SC	campaign	-	500,000	(36,812)	-	463,188
Private Charitable Trust	Free Roaming Cats	-	200,000	(200,000)	-	-
Misc. Private Charitable Trust	Spay/Neuter	-	103,600	-	-	103,600
Pledge receivable for capital campaign	Debt Service	31,737	-	(17,100)	-	14,637
Greater Good	Equine Rescue	-	3,000	-	-	3,000
Private Charitable Trust	Animal Help Resource Desk	-	10,000	-	-	10,000
Bequest receivable	Shelter	6,150,652	-	-	(6,150,652)	-
		<u>\$ 6,428,592</u>	<u>\$ 841,600</u>	<u>\$ (297,274)</u>	<u>\$ (6,353,493)</u>	<u>\$ 619,425</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS - Continued

Temporarily Restricted Net Assets Description	Purpose	2014			
		Beginning Balance	Contribu- tions	Disburse- ments	Ending Balance
PetSmart grant	Spay/Neuter	\$ 175,135	\$ -	\$ (175,135)	\$ -
	Bark				
Bresnan grant - cameras	Scholarships	-	10,000	(7,530)	2,470
Pet for life	Demographic	20,000	-	(10,104)	9,896
Lisa fund	Spay/Neuter	1	-	(1)	-
	Spending				
Community foundation	policy	204,709	29,128	-	233,837
Pledge receivable for capital campaign	Debt Service	40,467	-	(8,730)	31,737
Bequest receivable	Shelter	6,051,047	199,605	(100,000)	6,150,652
Donor designated gifts transferred to ML	Debt Service	-	146,500	(146,500)	-
		<u>\$ 6,491,359</u>	<u>\$ 385,233</u>	<u>\$ (448,000)</u>	<u>\$ 6,428,592</u>

NOTE 8 - PROPERTY & EQUIPMENT

Property and equipment consist of the following as of December 31, 2015 and 2014:

	2015	2014
Depreciable assets:		
Furniture and equipment	\$ 752,392	\$ 664,149
Vehicles	99,074	99,074
Building	9,143,058	8,999,122
Total property and equipment	9,994,524	9,762,345
Less: accumulated depreciation	(2,320,524)	(2,004,194)
	7,674,000	7,758,151
Non depreciable assets:		
Building and land	400,000	400,000
Total property and equipment	<u>\$ 8,074,000</u>	<u>\$ 8,158,151</u>

Depreciation expense for the years ended December 31, 2015 and 2014 are \$322,212 and \$313,315.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 9 - 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, 2015 and 2014, the Society had uninsured cash of \$391,746 and \$151,907.

NOTE 10 - OTHER CONCENTRATION RISK

Charleston Animal Society (CAS) has a vendor contract with the Charleston County for the humane disposition of animals in Charleston County. In 2015, CAS received 9454 animals from animal control agencies and Charleston County citizens, which represents 100% of the animal intake for the organization. CAS received \$1,302,477 from Charleston County under the contract which is 34% of the actual \$3,564,158 cost of animal disposition. The concentration of animal intake from Charleston County related to one vendor contract is a risk to the organization.

Actual cost of animal disposition for 2015 was \$377 per animal of which Charleston County paid \$138 per animal disposition. CAS must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

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, 2015 and 2014 were \$20,471 and \$15,555.

NOTE 12 - RELATED PARTIES TRANSACTIONS

The Society received \$717,838 and \$68,121 in contributions and pledge payments from members of its Board of Directors for years ended December 31, 2015 and 2014, respectively. The outstanding balance of promises to give from its Board members at December 31, 2015 and 2014 was \$375,500 and \$-0-, respectively.

NOTE 13 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 15, 2016 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.