

**CHARLESTON ANIMAL SOCIETY**

**FINANCIAL REPORT**

**DECEMBER 31, 2017 and 2016**

**CHARLESTON ANIMAL SOCIETY**

**FINANCIAL REPORT**

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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 statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### *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, 2017 and 2016, 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.

### *Other Matter*

The financial statements of Charleston Animal Society for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on March, 23, 2017.

*DCPAS, LLC dba Davis & Company CPAs*

Mount Pleasant, South Carolina  
March 21, 2018

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

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents, unrestricted	\$ 1,575,254	\$ 1,446,127
Accounts receivables	32,763	41,580
Unconditional promises to give, net	276,156	288,514
Prepaid expense	38,024	25,512
Inventories	97,881	95,449
Total current assets	<u>2,020,078</u>	<u>1,897,182</u>
<b>PROPERTY AND EQUIPMENT</b>		
Construction in progress	-	360,185
Land	641,000	641,000
Property and equipment, net	9,109,958	7,391,748
Total property and equipment	<u>9,750,958</u>	<u>8,392,933</u>
<b>INVESTMENTS, LONG TERM</b>	<u>8,193,920</u>	<u>7,282,592</u>
<b>OTHER ASSETS</b>		
Beneficiary interest in perpetual trusts held by others	1,019,185	943,943
Total other assets	<u>1,019,185</u>	<u>943,943</u>
<b>TOTAL ASSETS</b>	<u>\$ 20,984,141</u>	<u>\$ 18,516,650</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 143,204	\$ 320,652
Payroll related liabilities	200,452	173,662
Line of credit	-	64,000
Current portion of long term debt	112,317	-
Total current liabilities	<u>455,973</u>	<u>558,314</u>
<b>LONG-TERM LIABILITIES</b>		
Note payable	1,105,665	-
Total long-term liabilities	<u>1,105,665</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>1,561,638</u>	<u>558,314</u>
<b>NET ASSETS</b>		
Unrestricted net assets	4,275,197	4,270,132
Board designated - property fund	9,750,958	8,392,933
Board designated - working capital fund	500,000	500,000
Board designated - endowment fund	3,122,515	3,122,515
Temporarily restricted net assets	754,649	728,813
Permanently restricted net assets	1,019,184	943,943
Total net assets	<u>19,422,503</u>	<u>17,958,336</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 20,984,141</u>	<u>\$ 18,516,650</u>

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 1,625,077	\$ 833,234	\$ -	\$ 2,458,311
Grants	926,792	245,000	-	1,171,792
In-kind contributions	254,010	-	-	254,010
Program and service	1,338,761	-	-	1,338,761
Government service contract	1,425,000	-	-	1,425,000
Special events, net \$322,228 expense	738,948	-	-	738,948
Investment income, net of \$48,874 in fees	9,635	-	-	9,635
Realized gain on investments	307,861	-	-	307,861
Unrealized gain on investments	695,155	-	-	695,155
Change in value of beneficiary interest	-	-	75,241	75,241
Gain on sale of assets	5,925	-	-	5,925
Bingo income	31,577	-	-	31,577
	<u>7,358,741</u>	<u>1,078,234</u>	<u>75,241</u>	<u>8,512,216</u>
Net assets released from restrictions	<u>1,052,398</u>	<u>(1,052,398)</u>	<u>-</u>	<u>-</u>
Total support and revenues	8,411,139	25,836	75,241	8,512,216
<b>EXPENSES</b>				
Program and services	5,727,164	-	-	5,727,164
Management	265,649	-	-	265,649
Fundraising	1,055,236	-	-	1,055,236
Total expenses	<u>7,048,049</u>	<u>-</u>	<u>-</u>	<u>7,048,049</u>
<b>INCREASE IN NET ASSETS</b>	1,363,090	25,836	75,241	1,464,167
<b>NET ASSETS, beginning of year</b>	<u>16,285,580</u>	<u>728,813</u>	<u>943,943</u>	<u>17,958,336</u>
<b>NET ASSETS, end of year</b>	<u>\$ 17,648,670</u>	<u>\$ 754,649</u>	<u>\$ 1,019,184</u>	<u>\$ 19,422,503</u>

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 2,027,810	\$ 760,741	\$ -	\$ 2,788,551
Grants	392,724	-	-	392,724
In-kind contributions	422,730	-	-	422,730
Program and service	1,111,788	-	-	1,111,788
Government service contract	1,311,005	-	-	1,311,005
Special events, net \$410,070 expense	749,112	-	-	749,112
Investment income, net of \$45,949 in fees	107,185	-	-	107,185
Realized loss on investments	453,084	-	-	453,084
Unrealized loss on investments	(38,803)	-	-	(38,803)
Change in value of beneficiary interest	-	-	6,797	6,797
Bingo income	30,856	-	-	30,856
	<u>6,567,491</u>	<u>760,741</u>	<u>6,797</u>	<u>7,335,029</u>
Net assets released from restrictions	651,353	(651,353)	-	-
Total support and revenues	7,218,844	109,388	6,797	7,335,029
<b>EXPENSES</b>				
Program and services	5,441,912	-	-	5,441,912
Management	167,975	-	-	167,975
Fundraising	997,156	-	-	997,156
	<u>6,607,043</u>	<u>-</u>	<u>-</u>	<u>6,607,043</u>
Total expenses	6,607,043	-	-	6,607,043
<b>INCREASE IN NET ASSETS</b>	611,801	109,388	6,797	727,986
<b>NET ASSETS, beginning of year</b>	<u>15,673,779</u>	<u>619,425</u>	<u>937,146</u>	<u>17,230,350</u>
<b>NET ASSETS, end of year</b>	<u>\$ 16,285,580</u>	<u>\$ 728,813</u>	<u>\$ 943,943</u>	<u>\$ 17,958,336</u>

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Program and Services</u>	<u>Manage- ment</u>	<u>Fund- raising</u>	<u>Total</u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
Salaries	\$ 2,588,623	\$ 203,822	\$ 474,097	\$ 3,266,542
Employee benefits	332,736	27,278	33,144	393,158
Payroll taxes	193,993	15,840	34,766	244,599
Total compensation and related expenses	3,115,352	246,940	542,007	3,904,299
<b>OTHER EXPENSES</b>				
Shelter expenses	996,281	-	664	996,945
Public relations	127,167	-	343,891	471,058
Utilities	272,863	-	52,800	325,663
Clinic expenses	197,899	-	-	197,899
Computer and equipment	78,255	4,802	40,871	123,928
Building maintenance	140,546	-	-	140,546
Bank fees	32,893	2,360	46,725	81,978
Professional fees	66,789	-	6,060	72,849
Contract services	54,576	-	-	54,576
Insurance	85,235	-	-	85,235
Employee training	36,983	6,443	3,821	47,247
Office expense	25,736	2,000	13,128	40,864
Miscellaneous	27,992	3,104	4,470	35,566
Education expenses	36,580	-	-	36,580
Automobile	22,985	-	-	22,985
Travel and entertainment	2,857	-	799	3,656
Interest	30,487	-	-	30,487
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>5,351,476</b>	<b>265,649</b>	<b>1,055,236</b>	<b>6,672,361</b>
Depreciation	375,688	-	-	375,688
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 5,727,164</b>	<b>\$ 265,649</b>	<b>\$ 1,055,236</b>	<b>\$ 7,048,049</b>

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Program and Services</u>	<u>Manage- ment</u>	<u>Fund- raising</u>	<u>Total</u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
Salaries	\$ 2,669,771	\$ 123,864	\$ 453,142	\$ 3,246,777
Employee benefits	300,556	16,763	32,395	349,714
Payroll taxes	<u>196,786</u>	<u>8,841</u>	<u>33,052</u>	<u>238,679</u>
Total compensation and related expenses	3,167,113	149,468	518,589	3,835,170
<b>OTHER EXPENSES</b>				
Shelter expenses	816,210	-	-	816,210
Public relations	157,465	-	292,408	449,873
Utilities	209,786	-	52,840	262,626
Clinic expenses	242,720	-	-	242,720
Computer and equipment	67,696	10,539	40,686	118,921
Building maintenance	98,500	-	-	98,500
Bank fees	34,497	6,083	54,759	95,339
Professional fees	66,259	-	9,502	75,761
Contract services	58,081	-	-	58,081
Insurance	53,034	-	-	53,034
Employee training	40,321	1,555	7,872	49,748
Office expnse	28,123	-	13,084	41,207
Miscellaneous	27,887	330	5,788	34,005
Education expenses	28,880	-	-	28,880
Automobile	16,442	-	-	16,442
Travel and entertainment	4,179	-	1,628	5,807
Interest	<u>164</u>	<u>-</u>	<u>-</u>	<u>164</u>
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	5,117,357	167,975	997,156	6,282,488
Depreciation	<u>324,555</u>	<u>-</u>	<u>-</u>	<u>324,555</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 5,441,912</u>	<u>\$ 167,975</u>	<u>\$ 997,156</u>	<u>\$ 6,607,043</u>

See accompanying notes.



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

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 1,464,167	\$ 727,986
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	375,688	324,555
In-kind donation of property	-	(241,000)
Unrealized loss on investments	695,155	38,803
Change in beneficiary interest in trust	(75,241)	(6,797)
Decrease (increase) in current assets:		
Accounts receivable	8,817	6,500
Grants receivable	-	143,000
Unconditional promises to give	12,358	(39,927)
Prepaid expenses	(12,512)	7,488
Inventory	(2,432)	(3,657)
Increase (decrease) in operating liabilities:		
Accounts payable	(177,448)	177,606
Payroll related liabilities	26,790	66,403
Net cash provided (used) by operating activities	2,315,342	1,200,960
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of construction in progress	-	(360,185)
Purchases of property and equipment	(1,733,713)	(42,303)
Proceeds from sale of securities	2,163,445	2,188,770
Purchase of securities - net reinvested earnings	(3,769,929)	(2,726,617)
Net cash provided (used) in investing activities	(3,340,197)	(940,335)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	1,236,000	64,000
Payments on note payable	(82,018)	-
Net cash (used) in financing activities	1,153,982	64,000
Net increase in unrestricted cash and cash equivalents	129,127	324,625
Cash and cash equivalents as of beginning of year	1,446,127	1,121,502
Cash and cash equivalents as of end of year	\$ 1,575,254	\$ 1,446,127
<b>Supplemental Disclosures:</b>		
Noncash investing and financing activities:		
Assets donated for use	\$ -	\$ 241,000
Interest paid	\$ 30,487	\$ 164

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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.

**Grants and Accounts Receivables**

The Society may from time to time have grants and accounts receivables from grantors. Grants and accounts receivable are considered to be fully collectible based on past experience. Accordingly, no allowance has been established for grants and accounts receivable.

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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. Construction in progress is stated at cost and is not depreciated until put into use. Costs associated with acquisition, development and construction of certain assets of the Society's facilities are capitalized including interest associated with a loan, if a loan was necessary for construction of the asset.

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

**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 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.

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

**Endowment Funds - continued**

*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.

**Fair Value of Financial Instruments**

The carrying amounts of financial instruments, including cash and cash equivalent, money market funds, receivables, beneficiary interest in trusts held by others 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, 2017 and 2016 of \$122,891 and \$104,262.

**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.

**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.

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

**Advertising**

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expense total \$-0- for the years ended December 31, 2017 and 2016.

**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. The Society is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax period in progress.

**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 year have been reclassified to conform to the 2017 presentation without affecting the previously reported net assets.

**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. 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:

	<u>2017</u>	<u>2016</u>
Beginning promise to give	\$ 339,064	\$ 299,137
Pledge commitments	223,662	297,500
Pledge payments	<u>(279,570)</u>	<u>(257,573)</u>
	283,156	339,064
Less allowance for bad debt	<u>(7,000)</u>	<u>(50,550)</u>
Ending promise to give balance	<u>\$ 276,156</u>	<u>\$ 288,514</u>

Pledges are receivable as follows:

Less than one year	\$ 115,926
Two to five years	<u>160,230</u>
	<u>\$ 276,156</u>

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**NOTE 3 - INVESTMENTS**

Investments held by the Society are in various accounts at a national brokerage firm. Investment fees are netted against investment income. Investments are stated at fair market value and consist of the following at December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Real estate partnerships	\$ 601,075	\$ 577,378	\$ 647,667	\$ 678,477
Money market	468,099	468,099	156,461	156,461
Mutual funds				
Fixed income	2,654,072	2,662,992	2,532,949	2,555,854
Equities	4,470,672	3,501,076	3,942,699	3,537,184
	<u>\$ 8,193,918</u>	<u>\$ 7,209,545</u>	<u>\$ 7,279,776</u>	<u>\$ 6,927,976</u>

Investment Maturities

Maturities for the above listed investments as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Long-term investments	\$ 8,193,918	\$ 7,279,776
	<u>\$ 8,193,918</u>	<u>\$ 7,279,776</u>

The following schedule summarizes the investment return in the Statements of Activities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beginning Investment Balance	\$ 7,279,776	\$ 6,783,549
Interest/dividends	195,227	153,134
Management fees	(48,874)	(45,949)
Realized gains/(losses)	307,862	453,084
Unrealized gains/(losses)	695,155	(38,803)
Contributions/pledge payments	2,163,445	479,283
Withdrawals/distributions	<u>(2,398,673)</u>	<u>(504,522)</u>
Ending Investment Balance	<u>\$ 8,193,918</u>	<u>\$ 7,279,776</u>

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**NOTE 4 - 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, 2017 and 2016, 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:

- *Equities*: The Society's equity 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 and corporate securities reflect closing prices reported in the active markets in which the securities are traded. (Level 1 inputs -market approach).
- *Money market*: The fair value of investments money market 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)



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**NOTE 4 - 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, 2017 and 2016:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 601,075	\$ -	\$ -	\$ 601,075
Money market	468,099	-	-	468,099
Mutual funds	7,124,744	-	-	7,124,744
Beneficiary interest in perpetual trust held by others	-	-	1,019,184	1,019,184
	\$ 8,193,918	\$ -	\$ 1,019,184	\$ 9,213,102

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 647,667	\$ -	\$ -	\$ 647,667
Money market	156,461	-	-	156,461
Mutual funds	6,475,648	-	-	6,475,648
Beneficiary interest in perpetual trust held by others	-	-	943,943	943,943
	\$ 7,279,776	\$ -	\$ 943,943	\$ 8,223,719

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, 2017 and 2016, 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 years ended December 31, 2017 and 2016:

	2017	2016
Beginning balance	\$ 943,943	\$ 937,146
Contribution transfer	(45,875)	(46,650)
Beneficiary interest gain	121,116	53,447
	\$ 1,019,184	\$ 943,943

**CHARLESTON ANIMAL SOCIETY**  
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**NOTE 5 - 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, 2017 and 2016 are as follows:

		2017			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contribution Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith					
Trust Benefits					
Receivable	Operating	\$ 235,731	\$ (9,875)	\$ 29,804	\$ 255,660
Wells Fargo Jantzen					
Trust Benefits					
Receivable	Operating	708,212	(36,000)	91,312	763,524
		<u>\$ 943,943</u>	<u>\$ (45,875)</u>	<u>\$ 121,116</u>	<u>\$ 1,019,184</u>

		2016			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contribution Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith					
Trust Benefits					
Receivable	Operating	\$ 234,919	\$ (9,500)	\$ 10,312	\$ 235,731
Wells Fargo Jantzen					
Trust Benefits					
Receivable	Operating	702,227	(37,150)	43,135	708,212
		<u>\$ 937,146</u>	<u>\$ (46,650)</u>	<u>\$ 53,447</u>	<u>\$ 943,943</u>

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

	2017	2016
Beginning Permanently Restricted	\$ 943,943	\$ 937,146
Change in value	121,116	53,447
Distribution	(45,875)	(46,650)
Ending Permanently Restricted	<u>\$ 1,019,184</u>	<u>\$ 943,943</u>

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - 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% to 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 \$45,875 and \$46,650 in 2017 and 2016. 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, 2017 and 2016.

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**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

The Society has temporarily restricted net assets available for the following purposes and time restrictions as of December 31, 2017 and 2016:

		2017				
Temporarily Restricted Net Assets Description	Purpose	Beginning Balance	Contribu- tions	Disburse- ments	Reclassi- fications	Ending Balance
Private Donation	Animal Services	\$ 500	\$ -	\$ (500)	\$ -	\$ -
Private Donation	Sponsorship	8,000	-	(8,000)	-	-
Private Donation	Renovations	10,000	-	(10,000)	-	-
Private Donation	Internship Program	98,830	-	(98,830)	-	-
No Kill SC	No kill campaign	28,644	200,000	(199,492)	-	29,152
Private Charitable Trust	Free Roaming Cats	10,000	125,000	(126,250)	25,000	33,750
Private Charitable Trust	Spay/Neuter (S/N)	48,737	100,000	(16,968)	(25,000)	106,769
Private Donation	S/N Mobile Clinic	225,000	-	(225,000)	-	-
Pledge receivable	Capital Campaign	5,498		(4,500)		998
Private Foundation	Exec. Leader Fellows	-	200,000	(117,152)	-	82,848
Private Foundation	Disaster Fund	-	45,000	(18,000)	-	27,000
Private Donation	Memorial Garden	-	157,912	-	-	157,912
Private Donation	Animal Res. Center	-	49,000	(20,848)	-	28,152
Private Charitable Trust	Animal Help Res. Desk	8,077		(8,077)	-	-
Private Foundation	Education Grant	1,000	10,000	(1,000)	-	10,000
Pledge receivable	Time restricted	284,527	191,322	(197,780)	-	278,069
		\$ 728,813	\$ 1,078,234	\$ (1,052,397)	\$ -	\$ 754,650

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**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS - Continued**

Temporarily Restricted Net Assets Description	Purpose	2016				
		Beginning Balance	Contribu- tions	Disburse- ments	Reclassi- fications	Ending Balance
ASPCA	Pet Retention	\$ 25,000	\$ -	(25,000)	\$ -	\$ -
Private Donation	Animal Services	-	2,500	(2,000)	-	500
Private Donation	Sponsorship	-	8,000	-	-	8,000
Private Donation	Renovations	-	10,000	-	-	10,000
Private Donation	Intership Program	-	100,000	(1,170)	-	98,830
No Kill SC	No kill campaign	463,188	162	(184,706)	(250,000)	28,644
Private Charitable Trust	Free Roaming Cats	-	15,000	(5,000)	-	10,000
Private Charitable Trust	Spay/Neuter (S/N)	103,600	141,219	(196,082)	-	48,737
Private Donation	S/N Mobile Clinic	-	225,000	-	-	225,000
Pledge receivable	Capital Campaign	14,637	2,013	(5,800)	(5,352)	5,498
Greater Good	Equine Rescue	3,000	-	(3,000)	-	-
Private Charitable Trust	Animal Help Res. Desk	10,000	8,350	(10,273)	-	8,077
Private Foundation	Education Grant	-	1,000	-	-	1,000
Pledge receivable	Time restricted	-	247,500	(201,773)	238,800	284,527
		<u>\$ 619,425</u>	<u>\$ 760,744</u>	<u>\$ (634,804)</u>	<u>\$ (16,552)</u>	<u>\$ 728,813</u>

**NOTE 7 - PROPERTY & EQUIPMENT**

Property and equipment consist of the following as of December 31, 2017 and 2016:

	2017	2016
Depreciable assets:		
Furniture and equipment	\$ 1,145,391	\$ 794,696
Vehicles	276,771	99,074
Building	10,637,305	9,143,058
Total property and equipment	12,059,467	10,036,828
Less: accumulated depreciation	(2,949,509)	(2,645,080)
	9,109,958	7,391,748
Non depreciable assets:		
Construction in process	-	360,185
Land	641,000	641,000
Total property and equipment	<u>\$ 9,750,958</u>	<u>\$ 8,392,933</u>

Depreciation expense for the years ended December 31, 2017 and 2016 are \$375,688 and \$324,555. During 2016, the Society received an in-kind donation of land valued at \$241,000 based upon county tax assessment values.

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**NOTE 8 - DEBT**

The Society entered into a \$1,300,000 non-revolving line of credit in June of 2016. Draws on the line may be made through March 2017. Monthly payments are interest only at the libor daily floating rate plus 1.75% until March 2017. Beginning April 30, 2017 interest rate will be 3% and monthly payments will be made based on the outstanding balance as of March 31, 2017 with payments amortized over 10 years. The outstanding balance as of December 31, 2016 was \$64,000.

On April 30, 2017 the line of credit was transferred to a 10 year term loan for the amount of \$1,290,934. Monthly payments are \$12,317 including principle and interest. Interest is calculated at 3.00%. The loan matures on June 30, 2017.

The debt maturity for the next five years ended December 31 is as follows:

2018	\$	112,317
2019		115,781
2020		119,269
2021		123,031
2022		126,826
Thereafter		620,758
	\$	1,217,982

**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, 2017 and 2016, the Society had uninsured cash of \$676,731 and \$645,741.

**NOTE 10 - OTHER CONCENTRATION RISK**

The Society has a vendor contract with the Charleston County for the humane disposition of animals in Charleston County. In 2017, CAS received 8,296 animals from animal control agencies and Charleston County citizens, which represents 88% of the animal intake for the organization. CAS received \$1,425,000 from Charleston County under the contract which is 52% of the actual cost (\$2,727,939) 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 2017 was \$329 per animal of which Charleston County paid \$150 per animal disposition. CAS must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

In 2016, the Society received 9,431 animals from animal control agencies and Charleston County citizens, which represents 100% of the animal intake for the organization. The Society received \$1,310,705 from Charleston County under the contract which is 37% 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 2016 was \$369 per animal of which Charleston County paid \$139 per animal disposition. The Society must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

**CHARLESTON ANIMAL SOCIETY  
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**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, 2017 and 2016 were \$25,372 and \$24,812.

**NOTE 12 - RELATED PARTIES TRANSACTIONS**

The Society received \$233,730 and \$607,258 in contributions and pledge payments from members of its Board of Directors for years ended December 31, 2017 and 2016, respectively. The outstanding balance of promises to give from the Board members at December 31, 2017 and 2016 was \$63,818 and \$88,967, respectively.

During 2017, the Chief Financial Officer's husband did some repair work to a fence. He was paid \$2,450.

**NOTE 13 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through 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.