

CHARLESTON ANIMAL SOCIETY

FINANCIAL REPORT

DECEMBER 31, 2014

CHARLESTON ANIMAL SOCIETY

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Mount Pleasant, South Carolina

April 6, 2015

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

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 606,362	\$ 817,102
Investments, at market, short-term	241,415	230,000
Accounts receivables	46,672	146,361
Unconditional promises to give, net	32,737	43,966
Bequest receivable, short-term	100,000	100,000
Prepaid expense	24,292	24,041
Inventories	67,183	40,923
Total current assets	<u>1,118,661</u>	<u>1,402,393</u>
PROPERTY AND EQUIPMENT		
Building and land - non depreciable	400,000	410,000
Property and equipment, net	7,758,151	7,889,132
Total property and equipment	<u>8,158,151</u>	<u>8,299,132</u>
OTHER ASSETS		
Investments, at market, long-term	2,116,920	2,068,207
Beneficiary interest in perpetual trusts held by others	1,042,317	1,046,678
Bequest receivable, long-term	6,050,652	5,951,047
Total other assets	<u>9,209,889</u>	<u>9,065,932</u>
TOTAL ASSETS	<u>\$ 18,486,701</u>	<u>\$ 18,767,457</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 83,887	\$ 59,600
Payroll related liabilities	67,122	63,056
Note payable - current portion	253,517	240,688
Total current liabilities	<u>404,526</u>	<u>363,344</u>
LONG-TERM LIABILITIES		
Note payable	1,210,510	1,562,479
Total long-term liabilities	<u>1,210,510</u>	<u>1,562,479</u>
TOTAL LIABILITIES	<u>1,615,036</u>	<u>1,925,823</u>
NET ASSETS		
Unrestricted net assets	242,605	4,465
Board designated - property fund	8,158,151	8,299,132
Board designated - working capital fund	500,000	500,000
Temporarily restricted net assets	6,428,592	6,491,359
Permanently restricted net assets	1,542,317	1,546,678
Total net assets	<u>16,871,665</u>	<u>16,841,634</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,486,701</u>	<u>\$ 18,767,457</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 \$20,159 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	3,760,234	-	-	3,760,234
Management	132,810	-	-	132,810
Fundraising	645,504	-	-	645,504
Total expenses	<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 ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 1,723,575	\$ 6,170,393	\$ -	\$ 7,893,968
Program and service	494,622	221,564	-	716,186
Government service contract	888,621	-	-	888,621
Special events, net \$58,378 expense and \$27,923 direct benefit	180,432	-	-	180,432
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>3,673,120</u>	<u>6,391,957</u>	<u>110,572</u>	<u>10,175,649</u>
Net assets released from restrictions	<u>225,380</u>	<u>(225,380)</u>	<u>-</u>	<u>-</u>
Total support and revenues	3,898,500	6,166,577	110,572	10,175,649
EXPENSES				
Program and services	3,571,305	-	-	3,571,305
Management	195,226	-	-	195,226
Fundraising	436,572	-	-	436,572
	<u>4,203,103</u>	<u>-</u>	<u>-</u>	<u>4,203,103</u>
Total expenses	4,203,103	-	-	4,203,103
INCREASE (DECREASE) IN NET ASSETS				
	(304,603)	6,166,577	110,572	5,972,546
NET ASSETS, beginning of year	<u>9,108,200</u>	<u>324,782</u>	<u>1,436,106</u>	<u>10,869,088</u>
NET ASSETS, end of year	<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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Program and Services</u>	<u>Manage- ment</u>	<u>Fund- raising</u>	<u>Total</u>
COMPENSATION AND RELATED EXPENSES				
Salaries	\$ 1,635,219	\$ 98,869	\$ 181,017	\$ 1,915,105
Employee benefits	173,698	12,865	6,019	192,582
Payroll taxes	<u>122,713</u>	<u>6,898</u>	<u>13,394</u>	<u>143,005</u>
Total compensation and related expenses	1,931,630	118,632	200,430	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	<u>14,494</u>	<u>14,178</u>	<u>25,212</u>	<u>53,884</u>
TOTAL EXPENSES BEFORE DEPRECIATION	3,446,919	132,810	645,504	4,225,233
Depreciation	<u>313,315</u>	<u>-</u>	<u>-</u>	<u>313,315</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 3,760,234</u>	<u>\$ 132,810</u>	<u>\$ 645,504</u>	<u>\$ 4,538,548</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>
COMPENSATION AND RELATED EXPENSES				
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
OTHER EXPENSES				
Shelter expenses	558,190	-	-	558,190
Clinic expenses	184,323	-	-	184,323
Education expenses	15,900	-	-	15,900
Public relations	88,757	-	148,531	237,288
Utilities	155,569	32,354	210	188,133
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
Contract services	15,335	6,000	9,207	30,542
Office expense	80,837	-	-	80,837
Employee training	26,106	3,660	3,193	32,959
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>28,412</u>	<u>3,351</u>	<u>-</u>	<u>31,763</u>
TOTAL EXPENSES BEFORE DEPRECIATION	3,266,606	195,226	436,572	3,898,404
Depreciation	<u>304,699</u>	<u>-</u>	<u>-</u>	<u>304,699</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 3,571,305</u>	<u>\$ 195,226</u>	<u>\$ 436,572</u>	<u>\$ 4,203,103</u>

See accompanying notes and independent auditors' report.

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

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 30,031	\$ 5,972,546
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	313,315	304,699
Net (gains) on investments	22,601	(294,292)
Change in beneficiary interest in trust	4,361	(110,572)
Decrease (increase) in current assets:		
Accounts receivable	99,690	12,946
Unconditional promises to give	11,229	25,906
Bequest receivable	(99,605)	(6,051,047)
Prepaid expenses	(250)	(7,856)
Inventory	(26,260)	19,753
Increase (decrease) in operating liabilities:		
Accounts payable	24,285	(60,246)
Payroll related liabilities	4,067	34,903
Net cash provided (used) by operating activities	383,464	(153,260)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(182,324)	(106,485)
Proceeds from sale of lot	10,000	-
Proceeds from sale of securities	2,409,909	244,300
Purchase of securities - net reinvested earnings	(2,492,649)	(56,184)
Net cash provided (used) in investing activities	(255,064)	81,631
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on notes payable	-	64,047
Payments on note payable	(339,140)	(224,758)
Net cash (used) in financing activities	(339,140)	(160,711)
Net decrease in unrestricted cash and cash equivalents	(210,740)	(232,340)
Cash and cash equivalents as of beginning of year	817,102	1,049,442
Cash and cash equivalents as of end of year	\$ 606,362	\$ 817,102
Supplemental Disclosures:		
Noncash investing and financing activities:		
Unrecognized gains	\$ (339,384)	\$ 253,248
Assets donated for use	\$ -	\$ 10,000
Interest paid	\$ 42,728	\$ 47,516
Taxes paid	\$ -	\$ -

See accompanying notes and independent auditors' report.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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 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.

Receivables

The Society may from time to time have grant receivables from grantors. There were grant receivables of \$46,672 and \$146,361 as of December 31, 2014 and 2013.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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 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 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 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.

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, 2014 AND 2013

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 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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 and 2013 of \$44,429 and \$62,809.

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, 2014 and 2013 of \$27,361 and \$36,714.

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, 2014 and 2013.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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 2011.

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 2014 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beginning promise to give	\$ 77,966	\$ 103,873
Pledge commitments	100,000	3,500
Pledge payments	(111,229)	(11,150)
Adjustments and write-offs	<u>-</u>	<u>(18,257)</u>
	66,737	77,966
Less allowance for bad debt	<u>(34,000)</u>	<u>(34,000)</u>
Ending promise to give balance, designated for new shelter	<u>\$ 32,737</u>	<u>\$ 43,966</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Beginning bequest receivable	\$ 6,640,480	\$ -
Bequest receivable	-	6,640,480
Bequest payments	<u>(100,000)</u>	<u>-</u>
	6,540,480	6,640,480
Less cash discount	<u>(389,828)</u>	<u>(589,433)</u>
Ending bequest receivable	<u>\$ 6,150,652</u>	<u>\$ 6,051,047</u>
Current portion	\$ 100,000	\$ 100,000
Two to five years	<u>6,050,652</u>	<u>5,951,047</u>
Total bequest receivable	<u>\$ 6,150,652</u>	<u>\$ 6,051,047</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, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Real estate partnerships	\$ 172,976	\$ 186,512	\$ 29,529	\$ 23,700
Mutual funds				
Fixed Income	1,287,185	1,318,334	563,938	565,380
Equities	698,824	681,016	1,650,322	1,342,866
Securities	<u>199,350</u>	<u>203,000</u>	<u>54,418</u>	<u>57,403</u>
	<u>\$ 2,358,335</u>	<u>\$ 2,388,862</u>	<u>\$ 2,298,207</u>	<u>\$ 1,989,349</u>

Investment Maturities

Maturities for the above listed investments as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Short-term investments equals		
Current portion of building		
debt for following year	\$ 241,415	\$ 230,000
Long-term investments	<u>2,116,920</u>	<u>2,068,207</u>
	<u>\$ 2,358,335</u>	<u>\$ 2,298,207</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 4 - INVESTMENTS - Continued

The following schedule summarizes the investment return in the Statement of Activities for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beginning Investment Balance	\$ 2,298,207	\$ 2,192,031
Interest/dividends	69,725	68,835
Management fees	(20,159)	(27,554)
Realized gains/(losses)	325,505	151,617
Unrealized gains/(losses)	(339,384)	253,248
Contributions/pledge payments	171,760	21,003
Withdrawals/distributions	(364,698)	(502,505)
Less net cash equivalents	<u>217,379</u>	<u>141,532</u>
Ending Investment Balance	<u>\$ 2,358,335</u>	<u>\$ 2,298,207</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, 2014 and 2013, 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, 2014 AND 2013

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, 2014 and 2013:

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 172,976	\$ -	\$ -	\$ 172,976
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
	\$ 2,358,335	\$ -	\$ 7,192,969	\$ 9,551,304

	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

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, 2014 and 2013, 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, 2014 and 2013:

	2014	2013
Beginning balance	\$ 7,097,725	\$ 936,106
Change in value	241,744	6,202,019
Distribution to Society	(146,500)	(40,400)
	\$ 7,192,969	\$ 7,097,725

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 and 2013 are as follows:

		2014			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contribu- tion 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>

		2013			
Permanently Restricted Net Assets	Purpose	Beginning Balance	Contribu- tion Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust Benefits Receivable	Operating	\$ 235,850	\$ (10,400)	\$ 35,795	\$ 261,245
Wells Fargo Jantzen Trust Benefits Receivable	Operating	700,256	(30,000)	115,177	785,433
Corpus of Community Foundation	Operating	500,000	-	-	500,000
		<u>\$ 1,436,106</u>	<u>\$ (40,400)</u>	<u>\$ 150,972</u>	<u>\$ 1,546,678</u>

Change in endowment net assets for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Beginning Permanently Restricted	\$ 1,546,678	\$ 1,436,106
Change in value	42,139	150,972
Distribution	(46,500)	(40,400)
Ending Permanently Restricted	<u>\$ 1,542,317</u>	<u>\$ 1,546,678</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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 \$46,500 and \$40,400 and the Community Foundation disbursed \$22,347 and \$28,360 from the endowment to support general operations in 2014 and 2013. 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, 2014 and 2013.

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, 2014 and 2013:

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>

CHARLESTON ANIMAL SOCIETY
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YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS - Continued

		2013			
Temporarily Restricted Net Assets Description	Purpose	Beginning Balance	Contribu- tions	Disburse- ments	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>

NOTE 8 - PROPERTY & EQUIPMENT

Property and equipment consist of the following as of December 31, 2014 and 2013:

	2014	2013
Depreciable assets:		
Furniture and equipment	\$ 664,149	\$ 580,216
Vehicles	99,074	71,258
Building	<u>8,999,122</u>	<u>8,928,537</u>
Total property and equipment	9,762,345	9,580,011
Less: accumulated depreciation	<u>(2,004,194)</u>	<u>(1,690,879)</u>
	7,758,151	7,889,132
Non depreciable assets:		
Building and land	<u>400,000</u>	<u>410,000</u>
Total property and equipment	<u>\$ 8,158,151</u>	<u>\$ 8,299,132</u>

Depreciation expense for the years ended December 31, 2014 and 2013 are \$313,315 and \$306,853.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 9 - NOTE PAYABLE

The Society has a bank loan, collateralized by the Remount Road building, with fixed interest at 3.5% through August of 2015. Management plans to extend the conventional loan at the end of the three year term.

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, 2014 and 2013 was \$42,728 and \$47,516. The future loan payments are as follows:

<u>Year</u>	<u>Principal Payments</u>
2015	\$ 253,517
2016	259,703
2017	261,515
2018	251,497
2019	246,000
Thereafter	191,795
	<u>\$ 1,464,027</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, 2014 and 2013, the Society had uninsured cash of \$151,907 and \$155,103.

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, 2014 and 2013 were \$15,555 and \$15,584.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 6, 2015 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.