

CHARLESTON ANIMAL SOCIETY

FINANCIAL REPORT

DECEMBER 31, 2018 and 2017

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 statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities. The Society adopted ASU 2016-14 during the year ended December 31, 2018, and it was applied retrospectively. The adoption of this standard did not have any impact on the Society's net assets or changes in net assets. Our opinion is not modified with respect to this matter.

DCPAS, LLC dba Davis & Company CPAs

Mount Pleasant, South Carolina
March 18, 2019

CHARLESTON ANIMAL SOCIETY
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 1,695,766	\$ 1,575,254
Accounts receivable	37,066	32,763
Bequests receivable	500,000	-
Contributions receivable, net	251,481	276,156
Prepaid expense	67,342	38,024
Inventories	135,618	97,881
Security deposits	15,311	-
Total current assets	<u>2,702,584</u>	<u>2,020,078</u>
PROPERTY AND EQUIPMENT		
Land	641,000	641,000
Property and equipment, net	8,942,038	9,109,958
Total property and equipment	<u>9,583,038</u>	<u>9,750,958</u>
INVESTMENTS, LONG TERM	<u>7,669,408</u>	<u>8,193,920</u>
OTHER ASSETS		
Beneficiary interest in perpetual trusts held by others	898,054	1,019,185
Total other assets	<u>898,054</u>	<u>1,019,185</u>
TOTAL ASSETS	<u>\$ 20,853,084</u>	<u>\$ 20,984,141</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 119,843	\$ 143,204
Payroll related liabilities	130,065	200,452
Current portion of long term debt	115,781	112,317
Total current liabilities	<u>365,689</u>	<u>455,973</u>
LONG-TERM LIABILITIES		
Note payable	989,884	1,105,665
Total long-term liabilities	<u>989,884</u>	<u>1,105,665</u>
TOTAL LIABILITIES	<u>1,355,573</u>	<u>1,561,638</u>
NET ASSETS		
Without donor restrictions	4,685,943	4,275,197
Board designated - property fund	9,583,038	9,750,958
Board designated - working capital fund	500,000	500,000
Board designated - endowment fund	3,122,515	3,122,515
With donor restrictions	1,606,015	1,773,833
Total net assets	<u>19,497,511</u>	<u>19,422,503</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,853,084</u>	<u>\$ 20,984,141</u>

See accompanying notes.

CHARLESTON ANIMAL SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES			
Contributions	\$ 2,223,940	\$ 766,251	\$ 2,990,191
Resale contributions	108,446	-	108,446
Grants	967,161	5,500	972,661
In-kind contributions	457,586	-	457,586
Program and service	1,366,182	-	1,366,182
Government service contract	1,654,778	-	1,654,778
Special events, net \$182,382 expense	492,176	-	492,176
Investment income, net of \$93,988 in fees	233,689	-	233,689
Realized loss on investments	(58,244)	-	(58,244)
Unrealized loss on investments	(699,869)	-	(699,869)
Change in value of beneficiary interest	-	(121,131)	(121,131)
Bingo income	39,089	-	39,089
	<u>6,784,934</u>	<u>650,620</u>	<u>7,435,554</u>
Net assets released from restrictions	<u>818,443</u>	<u>(818,443)</u>	<u>-</u>
Total support and revenues	7,603,377	(167,823)	7,435,554
EXPENSES			
Program and services	5,725,802	-	5,725,802
Management	343,620	-	343,620
Fundraising	1,291,124	-	1,291,124
Total expenses	<u>7,360,546</u>	<u>-</u>	<u>7,360,546</u>
INCREASE (DECREASE) IN NET ASSETS	242,830	(167,818)	75,008
NET ASSETS, beginning of year	<u>17,648,670</u>	<u>1,773,833</u>	<u>19,422,503</u>
NET ASSETS, end of year	<u>\$ 17,891,500</u>	<u>\$ 1,606,015</u>	<u>\$ 19,497,511</u>

See accompanying notes.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES			
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 \$8,874 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>1,153,475</u>	<u>8,512,216</u>
Net assets released from restrictions	<u>1,052,398</u>	<u>(1,052,398)</u>	<u>-</u>
Total support and revenues	8,411,139	101,077	8,512,216
EXPENSES			
Program and services	5,727,164	-	5,727,164
Management	265,649	-	265,649
Fundraising	1,055,236	-	1,055,236
	<u>7,048,049</u>	<u>-</u>	<u>7,048,049</u>
Total expenses	7,048,049	-	7,048,049
INCREASE IN NET ASSETS	1,363,090	101,077	1,464,167
NET ASSETS, beginning of year	<u>16,285,580</u>	<u>1,672,756</u>	<u>17,958,336</u>
NET ASSETS, end of year	<u>\$ 17,648,670</u>	<u>\$ 1,773,833</u>	<u>\$ 19,422,503</u>

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Program and Services</u>	<u>Manage- ment</u>	<u>Fund- raising</u>	<u>Total</u>
COMPENSATION AND RELATED EXPENSES				
Salaries	\$ 2,563,745	\$ 272,541	\$ 501,786	\$ 3,338,072
Employee benefits	325,701	9,337	25,522	360,560
Payroll taxes	189,443	38,934	22,142	250,519
Total compensation and related expenses	3,078,889	320,812	549,450	3,949,151
OTHER EXPENSES				
Animal expenses	943,482	-	23,138	966,620
Public relations	112,808	-	531,197	644,005
Veterinary care expenses	309,032	-	-	309,032
Utilities	198,033	-	49,200	247,233
Building maintenance	111,512	-	-	111,512
Insurance	101,809	6,050	-	107,859
Computer and equipment	43,765	215	55,171	99,151
Bank fees	31,275	6,175	54,578	92,028
Contract services	53,520	-	-	53,520
Outreach expenses	51,978	-	-	51,978
Professional fees	48,795	-	2,417	51,332
Office expense	27,588	642	12,261	40,491
Education expenses	36,138	-	-	36,138
Employee training	23,832	3,661	8,254	35,747
Interest	35,486	-	-	35,486
Miscellaneous	20,972	6,065	5,160	32,197
Automobile	20,461	-	-	20,461
Travel and entertainment	2,401	-	298	2,679
TOTAL EXPENSES BEFORE DEPRECIATION	5,251,876	343,620	1,291,124	6,886,620
Depreciation	473,926	-	-	473,926
TOTAL FUNCTIONAL EXPENSES	<u>\$ 5,725,802</u>	<u>\$ 343,620</u>	<u>\$ 1,291,124</u>	<u>\$ 7,360,546</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>
COMPENSATION AND RELATED EXPENSES				
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
OTHER EXPENSES				
Animal expenses	996,281	-	664	996,945
Public relations	127,167	-	343,891	471,058
Utilities	272,863	-	52,800	325,663
Veterinary expenses	197,899	-	-	197,899
Building maintenance	140,546	-	-	140,546
Computer and equipment	78,255	4,802	40,871	123,928
Insurance	85,235	-	-	85,235
Bank fees	32,893	2,360	46,725	81,978
Professional fees	66,789	-	6,060	72,849
Contract services	54,576	-	-	54,576
Employee training	36,983	6,443	3,821	47,247
Office expnse	25,736	2,000	13,128	40,864
Education expenses	36,580	-	-	36,580
Miscellaneous	27,992	3,104	4,470	35,566
Interest	30,487	-	-	30,487
Automobile	22,985	-	-	22,985
Travel and entertainment	2,857	-	799	3,656
TOTAL EXPENSES BEFORE DEPRECIATION	5,351,476	265,649	1,055,236	6,672,361
Depreciation	375,688	-	-	375,688
TOTAL FUNCTIONAL EXPENSES	<u>\$ 5,727,164</u>	<u>\$ 265,649</u>	<u>\$ 1,055,236</u>	<u>\$ 7,048,049</u>

See accompanying notes.

CHARLESTON ANIMAL SOCIETY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 75,008	\$ 1,464,167
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	473,926	375,688
Unrealized loss (gain) on investments	699,869	(695,155)
Change in beneficiary interest in trust	121,131	(75,241)
Decrease (increase) in current assets:		
Accounts receivable	(4,303)	8,817
Contributions receivable	24,675	12,358
Bequest receivable	(500,000)	-
Security deposits	(15,311)	-
Prepaid expenses	(29,318)	(12,512)
Inventory	(37,737)	(2,432)
Increase (decrease) in operating liabilities:		
Accounts payable	(23,361)	(177,448)
Payroll related liabilities	(70,387)	26,790
Net cash provided (used) by operating activities	714,192	925,032
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(306,006)	(1,733,713)
Proceeds from sale of securities	7,316,458	2,163,445
Purchase of securities - net reinvested earnings	(7,491,815)	(2,379,619)
Net cash provided (used) in investing activities	(481,363)	(1,949,887)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	-	1,236,000
Payments on note payable	(112,317)	(82,018)
Net cash provided (used) in financing activities	(112,317)	1,153,982
Net increase in unrestricted cash and cash	120,512	129,127
Cash and cash equivalents as of beginning of year	1,575,254	1,446,127
Cash and cash equivalents as of end of year	\$ 1,695,766	\$ 1,575,254
Supplemental Disclosures:		
Noncash investing and financing activities:		
Interest paid	\$ 35,486	\$ 30,487

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the board limits resulting for the nature of the organizations, the environment in which It operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Society must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment are reported as net assets with donor restrictions until the specified asset is placed in service by the Society, unless the donor provides more specific directions about the period of its use.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

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.

Contributions Receivable

Contributions receivable 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 contributions receivable 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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Investments – (continued)

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 \$1,000, 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.

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 donor restricted net assets (a) the original gifts donated to the endowment, (b) subsequent gifts to the endowment, and (c) accumulations to the 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 donor restricted net assets is classified as purpose 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:

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Endowment Funds - (continued)

- (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.

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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Accounting of Contributions

Contributions, including contributions receivable, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specially reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Contributions receivable with payments due in the future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contributions is clearly intended to support activities in the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until as conditions on which they depend are substantially met.

Gifts-In-Kind Contributions

The Society records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional contribution receivable at the date of gift, and the expense is report over the term of the use. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

No amounts have been reflected in the financial statements for donated services. The Society pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Society with campaign solicitations and various committee assignments.

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. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated amount the various functions benefited using a reasonable allocation method that is consistently applied as follows:

- Invoices are coded to departments when they are received.
- Utilities are allocated to Fundraising and Education using square footage estimates.
- Staff costs are allocated to departments based on area worked. Employees that have more than one area of responsibility are allocated based on time spent working in those areas.

Advertising

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expense total \$-0- for the years ended December 31, 2018 and 2017.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

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. 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 2018 presentation without affecting the previously reported net assets.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB), on August 18, 2016, published Accounting Standards Updated (ASU) No. 2016-14, Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources. The Society has elected to adopt this standard for the year ended December 31, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

- *Continued* -

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 2 - AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the Statement of Financial Position date of December 31, 2018, comprise of the following at December 31, 2018:

Financials assets:	
Cash and cash equivalents, unrestricted	\$ 1,695,766
Bequest receivable	500,000
Accounts receivable	37,066
Investments	8,567,462
Contributions receivables, net	<u>251,481</u>
Total financial assets	11,051,775
Less financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets	(1,368,347)
Less financial assets not available within one year:	
Contribution receivables	<u>(148,995)</u>
Amount available for general expenditures within one year	<u>\$ 9,534,433</u>

As part of its liquidity plan, the Society has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Society invests excess cash in short-term investments, including money market accounts, and has the ability to redeem certain investments as necessary to meet its obligations.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

The Society held a fundraising campaign to establish a new initiative for No Kill No Harm and contributions were made. The contributions receivable are considered unrestricted as they are for an initiative to raise awareness for our No Kill No Harm movement. Allowance for bad debt has been estimated based on past history by management. A summary of the contributions receivable are due as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Beginning promise to give	\$ 283,156	\$ 339,064
Contribution commitments	126,000	223,662
Contribution payments	<u>(157,675)</u>	<u>(279,570)</u>
	251,481	283,156
Less allowance for bad debt	<u>-</u>	<u>(7,000)</u>
Ending promise to give balance	<u>\$ 251,481</u>	<u>\$ 276,156</u>
	<u>2018</u>	<u>2017</u>
Beginning bequest receivable	\$ -	\$ -
Bequest receivable	500,000	-
Bequest payments	<u>-</u>	<u>-</u>
Total bequest receivable	<u>\$ 500,000</u>	<u>\$ -</u>

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 3 - CONTRIBUTIONS RECEIVABLE - (continued)

Contributions are receivable as follows:

Schedule of contributions due

Less than one year	\$	102,486
Two to five years		<u>148,995</u>
	\$	<u><u>251,481</u></u>

The Society received a bequest receivable during December 31, 2018 for \$500,000 and is restricted for the purpose to care for the animals. Per the donor the amount owed will be paid in 2019.

NOTE 4 - 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, 2018 and 2017:

	2018		2017	
	FMV	Cost	FMV	Cost
Real estate partnerships	\$ 89,789	\$ 102,908	\$ 601,075	\$ 577,378
Money market	463,605	463,605	468,099	468,099
Exchange traded funds	1,493,393	1,178,275	-	-
Mutual funds				
Fixed income	1,902,382	2,186,645	2,654,072	2,662,992
Equities	2,299,994	2,191,345	4,470,672	3,501,076
Bond Funds	718,289	530,419	-	-
Equity Funds	701,953	710,650	-	-
	<u>\$ 7,669,405</u>	<u>\$ 7,363,847</u>	<u>\$ 8,193,918</u>	<u>\$ 7,209,545</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)

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5 - SUMMARY OF FAIR VALUE EXPOSURE - (continued)

For the years ended December 31, 2018 and 2017, 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)
- *Exchange-traded funds:* Determined by the published closing price on the last business day of the fiscal year.

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, 2018 and 2017:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 89,789	\$ -	\$ -	\$ 89,789
Money market	463,605	-	-	463,605
Mutual funds	5,622,618	-	-	5,622,618
Exchange traded funds	1,493,393	-	-	1,493,393
Beneficiary interest in perpetual trust held by others	-	-	898,054	898,054
	\$ 7,669,405	\$ -	\$ 898,054	\$ 8,567,459
	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

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

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 5 - SUMMARY OF FAIR VALUE EXPOSURE - (continued)

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, 2018 and 2017, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,019,184	\$ 943,943
Contribution transfer	(46,000)	(45,875)
Beneficiary interest loss	<u>(75,130)</u>	<u>121,116</u>
	<u>\$ 898,054</u>	<u>\$ 1,019,184</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

The Society has net assets with donor restrictions that are available for the following purposes as of December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Purpose restrictions, available for spending:		
Spay/Neuter	\$ 50,000	106,766
Education	10,474	10,000
No kill campaign	28,868	29,152
Capital campaign	1,000	1,000
Free roaming cats	33,150	33,750
Maddies fund	120,000	109,848
Memorial garden	135,976	157,912
Animal resource center	7,978	28,152
WaterShed animal fund	74,201	-
ASCPA loves pets	2,640	-
Baker PFL	6,007	-
Beneficiary trust	<u>898,053</u>	<u>1,019,184</u>
Total purpose restrictions	1,368,347	1,495,764
Time restrictions:		
Contribution receivables not restricted by donors, but are unavailable for expenditure until due	<u>237,668</u>	<u>278,069</u>
Total time restrictions	237,668	278,069
Total net assets with donor restrictions	<u>\$ 1,606,015</u>	<u>\$ 1,773,833</u>

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 7 - ENDOWMENT AND DONOR RESTRICTED NET ASSETS

The Society's endowment consists of three individual funds established for the support of their mission. The endowment includes donor 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, 2018 and 2017 are as follows:

		2018			
Restricted Net Assets	Purpose	Beginning Balance	Contribution Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust					
Benefits Receivable	Operating	\$ 255,661	\$ (10,000)	\$ (20,596)	\$ 225,066
Wells Fargo Jantzen Trust					
Benefits Receivable	Operating	763,524	(36,000)	(54,536)	672,988
		<u>\$ 1,019,185</u>	<u>\$ (46,000)</u>	<u>\$ (75,132)</u>	<u>\$ 898,054</u>
		2017			
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	\$ 255,661
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>\$ 1,019,185</u>

Change in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Beginning Restricted Net Assets	\$ 1,019,185	\$ 943,943
Change in value	(75,132)	121,116
Distribution	(46,000)	(45,875)
Ending Restricted Net Assets	<u>\$ 898,054</u>	<u>\$ 1,019,185</u>

Donor 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 donor restricted corpus remains in the endowment. Endowment beneficiary interest in perpetual trust transferred \$46,000 and \$45,875 in 2018 and 2017. These distributions were recognized in contributions.

The investment income related to the donor restricted funds has been accounted for within the donor restrictions investment earnings on the Statements of Activities. There were no contributions to the with donor restrictions corpus during years ended December 31, 2018 and 2017.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 8 - PROPERTY & EQUIPMENT

Property and equipment consist of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Depreciable assets:		
Furniture and equipment	\$ 1,175,519	\$ 1,145,391
Vehicles	322,142	276,771
Building	<u>10,867,812</u>	<u>10,637,305</u>
Total property and equipment	12,365,473	12,059,467
Less: accumulated depreciation	<u>(3,423,435)</u>	<u>(2,949,509)</u>
	8,942,038	9,109,958
Non depreciable assets:		
Land	<u>641,000</u>	<u>641,000</u>
Total property and equipment	<u>\$ 9,583,038</u>	<u>\$ 9,750,958</u>

Depreciation expense for the years ended December 31, 2018 and 2017 are \$473,926 and \$375,688.

NOTE 9 - LEASE

The Society has entered into an operating lease beginning in March 2018 and expiring March 2023. Rent is \$6,100 per month for the first year, \$6,283 for the 2nd year, \$6,472.10 for the 3rd year, \$6,667.30 for the 4th year and \$6,868.60 for the 5th year. Other fees include operating expense of \$872.30 per month, tax payment of \$512.40 per month, insurance payment of \$170.80 per month. As of December 31, 2018, the following is a schedule of estimated future minimum lease payments on read properties due monthly.

<u>Year</u>	
2019	\$ 73,200
2020	75,396
2021	77,664
2022	80,004
2023	<u>82,428</u>
	<u>\$ 388,692</u>

Total rent expense for the years ended December 31, 2018 was \$56,396.

NOTE 10 - NOTES PAYABLE

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.

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, 2027.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 10 - NOTES PAYABLE - (continued)

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

<u>Year</u>		
2019	\$	115,781
2020		119,269
2021		123,031
2022		126,826
2023		130,738
Thereafter		<u>490,020</u>
	\$	<u><u>1,105,665</u></u>

NOTE 11 - 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, 2018 and 2017, the Society had uninsured cash of \$1,016,497 and \$676,731.

NOTE 12 - OTHER CONCENTRATION RISK

The Society has a vendor contract with the Charleston County for the humane disposition of animals in Charleston County. In 2018, CAS received 9,028 animals from animal control agencies and Charleston County citizens, which represents 100% of the animal intake for the organization. The Society received \$1,654,778 from Charleston County under the contract which is 52% of the actual cost \$2,998,739 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 2018 was \$318 per animal of which Charleston County paid \$155 per animal disposition. The Society must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

In 2017, the Society received 8,296 animals from animal control agencies and Charleston County citizens, which represents 100% of the animal intake for the organization. The Society received \$1,425,000 from Charleston County under the contract which is 52% of the actual \$2,727,939 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 2017 was \$329 per animal of which Charleston County paid \$150 per animal disposition. The Society must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

NOTE 13 - 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, 2018 and 2017 were \$31,455 and \$25,372.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 14 - RELATED PARTIES TRANSACTIONS

The Society received \$220,514 and \$233,730 in contributions and pledge payments from members of its Board of Directors for years ended December 31, 2018 and 2017, respectively. The outstanding balance of promises to give from the Board members at December 31, 2018 and 2017 was \$86,993 and \$63,818, respectively.

NOTE 15 - LEGAL PROCEEDINGS

During 2018, a complaint was filed against Charleston Animal Society and others alleging several issues including civil conspiracy, violation of civil rights, tortious interference with business relations and slander/libel/defamation. No monetary amounts for damages have been stated and are not determinable as of December 31, 2018. The plaintiff's objectives are for a judgment against the defendant(s) for both actual and punitive damages in the amount determined by a jury and for attorney's fees to be determined by the Court. Currently, there is a motion by defendant(s) to dismiss the claim, including all 4 causes of action. Charleston Animal Society considers this claim baseless and intends to contest it.

NOTE 16 - 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.