

**CHARLESTON ANIMAL SOCIETY**

**FINANCIAL REPORT**

**DECEMBER 31, 2016 and 2015**

**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, 2016 and 2015, 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, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Hubbard Davis CPAs, LLP*

Mount Pleasant, South Carolina  
March 23, 2017

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

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents, unrestricted	\$ 1,446,127	\$ 1,121,502
Investments, short-term	-	50,000
Accounts receivables	41,580	48,080
Grants receivable	-	143,000
Unconditional promises to give, net	288,514	248,587
Prepaid expense	25,512	33,000
Inventories	95,449	91,792
Total current assets	<u>1,897,182</u>	<u>1,735,961</u>
<b>PROPERTY AND EQUIPMENT</b>		
Construction in progress	360,185	-
Land	641,000	400,000
Property and equipment, net	<u>7,391,748</u>	<u>7,674,000</u>
Total property and equipment	<u>8,392,933</u>	<u>8,074,000</u>
<b>INVESTMENTS, LONG TERM</b>	<u>7,282,592</u>	<u>6,733,548</u>
<b>OTHER ASSETS</b>		
Beneficiary interest in perpetual trusts held by others	<u>943,943</u>	<u>937,146</u>
Total other assets	<u>943,943</u>	<u>937,146</u>
<b>TOTAL ASSETS</b>	<u>\$ 18,516,650</u>	<u>\$ 17,480,655</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 320,652	\$ 143,046
Payroll related liabilities	173,662	107,259
Line of credit	<u>64,000</u>	<u>-</u>
Total current liabilities	<u>558,314</u>	<u>250,305</u>
<b>TOTAL LIABILITIES</b>	<u>558,314</u>	<u>250,305</u>
<b>NET ASSETS</b>		
Unrestricted net assets	4,270,132	3,977,264
Board designated - property fund	8,392,933	8,074,000
Board designated - working capital fund	500,000	500,000
Board designated - endowment fund	3,122,515	3,122,515
Temporarily restricted net assets	728,813	619,425
Permanently restricted net assets	943,943	937,146
Total net assets	<u>17,958,336</u>	<u>17,230,350</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 18,516,650</u>	<u>\$ 17,480,655</u>

See accompanying notes and independent auditors' report.

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

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

See accompanying notes and independent auditors' report.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 2,129,476	\$ 841,602	\$ -	\$ 2,971,078
Grants	200,976	-	-	200,976
In-kind contributions	120,503	-	-	120,503
Program and service	1,097,708	-	-	1,097,708
Government service contract	1,272,503	-	-	1,272,503
Special events, net \$310,322 expense	417,577	-	-	417,577
Investment income, net of \$33,801 in fees	577,336	-	-	577,336
Realized loss on investments	(344,663)	-	-	(344,663)
Unrealized loss on investments	(299,307)	-	-	(299,307)
Change in value of beneficiary interest	-	-	(57,171)	(57,171)
Bingo income	16,056	-	-	16,056
	<u>5,188,165</u>	<u>841,602</u>	<u>(57,171)</u>	<u>5,972,596</u>
Net assets released from restrictions	345,276	(297,276)	(48,000)	-
Total support and revenues	5,533,441	544,326	(105,171)	5,972,596
<b>EXPENSES</b>				
Program and services	4,707,924	-	-	4,707,924
Management	165,243	-	-	165,243
Fundraising	740,744	-	-	740,744
	<u>5,613,911</u>	<u>-</u>	<u>-</u>	<u>5,613,911</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>				
	(80,470)	544,326	(105,171)	358,685
<b>NET ASSETS, beginning of year</b>	8,900,756	6,428,592	1,542,317	16,871,665
Reclassification - Pulleyn Bequest	6,150,652	(6,150,652)	-	-
Reclassification - Community Foundation	702,841	(202,841)	(500,000)	-
<b>NET ASSETS, end of year</b>	<u>\$ 15,673,779</u>	<u>\$ 619,425</u>	<u>\$ 937,146</u>	<u>\$ 17,230,350</u>

See accompanying notes and independent auditors' report.

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

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

See accompanying notes and independent auditors' report.

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

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

See accompanying notes and independent auditors' report.



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

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 727,986	\$ 358,685
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	324,555	322,212
In-kind donation of property	(241,000)	-
Unrealized loss on investments	38,803	299,307
Change in beneficiary interest in trust	(6,797)	105,171
Decrease (increase) in current assets:		
Accounts receivable	6,500	(9,158)
Grants receivable	143,000	(135,250)
Unconditional promises to give	(39,927)	(215,850)
Prepaid expenses	7,488	(8,708)
Inventory	(3,657)	(24,609)
Increase (decrease) in operating liabilities:		
Accounts payable	177,606	59,161
Payroll related liabilities	66,403	40,137
Net cash provided (used) by operating activities	1,200,960	791,098
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of construction in progress	(360,185)	-
Purchases of property and equipment	(42,303)	(238,061)
Proceeds from sale of real estate	-	1,182,500
Proceeds from sale of securities	2,188,770	5,498,386
Purchase of securities - net reinvested earnings	(2,726,617)	(5,148,312)
Net cash provided (used) in investing activities	(940,335)	1,294,513
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	64,000	-
Payments on note payable	-	(1,464,027)
Net cash (used) in financing activities	64,000	(1,464,027)
Net increase in unrestricted cash and cash equivalents	324,625	621,584
Cash and cash equivalents as of beginning of year	1,121,502	499,918
Cash and cash equivalents as of end of year	\$ 1,446,127	\$ 1,121,502
<b>Supplemental Disclosures:</b>		
Noncash investing and financing activities:		
Bequest receivable noncash payments:		
Stock transfer	\$ -	\$ 4,921,524
Real estate transfer	-	1,229,128
	-	6,150,652
Assets donated for use	\$ 241,000	\$ 10,000
Interest paid	\$ 164	\$ 42,342

See accompanying notes and independent auditors' report.

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**Nature of Organization**

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

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

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

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

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

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

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

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

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

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

**Basis of Accounting**

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

**Basis of Presentation**

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

**Cash and Cash Equivalents**

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

**Grants and Accounts Receivables**

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

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**Promises to Give**

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

**Investments**

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

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

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

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

**Property and Equipment**

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Expenditures for major additions and improvements, generally in excess of \$500, are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of the operations for the respective period. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years. Construction in progress is stated at cost and is not depreciated until put into use. Costs associated with acquisition, development and construction of certain assets of the Society's facilities are capitalized including interest associated with a loan, if a loan was necessary for construction of the asset.

**CHARLESTON ANIMAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**Beneficial Interest in Perpetual Trusts**

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

**Endowment Funds**

For the year end December 31, 2008, South Carolina adopted the State Prudent Management of Institutional Funds Act (SPMIFA). The Board of Directors of the Society has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original gifts donated to the permanent endowment, (b) subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Society
- (7) The investment policies of the Society

*Return Objectives and Risk Parameters*

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index or similar established broad market measures of return on investments.

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places an emphasis on equity-based investments and bond funds to achieve its long-term return objectives within prudent risk constraints.

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**Endowment Funds - continued**

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Society has a policy of appropriating for distribution each year four to five percent of its selected endowment fund's moving average fair value over the three years preceding the year in which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of four to five percent annually. This policy is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Fair Value of Financial Instruments**

The carrying amounts of financial instruments, including cash and cash equivalent, money market funds, receivables, beneficiary interest in trusts held by others and accounts payable approximate fair value because of the short maturity of those financial instruments.

**Compensated Absences**

Employees earn vacation at various rates depending on their status as non-exempt and exempt, job classification and years of service. Vacation increases by five (5) days at each job classification after two (2) years and five (5) years. Unused vacation carryover is allowed. A liability was recorded for estimated unused vacation as of December 31, 2016 and 2015 of \$104,262 and \$67,224.

**Donated Assets**

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

**Donated Services**

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Society's program services and its fundraising campaigns, the value of which is not recorded in the accompanying financial statements.

**Revenue Recognition**

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

**Expense Allocation**

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

**CHARLESTON ANIMAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**Advertising**

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expense total \$-0- for the years ended December 31, 2016 and 2015.

**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 years have been reclassified to conform to the 2016 presentation without affecting the previously reported net assets.

**NOTE 2 - PROMISES TO GIVE**

The Society held a fund raising campaign to establish a new initiative for No Kill No Harm and pledges were made. The promises to give are considered unrestricted as they are for an initiative to raise awareness for our No Kill No Harm movement. Uncollectible promises to give have been estimated based on past history by management. A summary of the pledges receivable (unconditional promises to give) are due as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Beginning promise to give	\$ 299,137	\$ 66,737
Pledge commitments	297,500	330,000
Pledge payments	<u>(257,573)</u>	<u>(97,600)</u>
	339,064	299,137
Less allowance for bad debt	<u>(50,550)</u>	<u>(50,550)</u>
Ending promise to give balance	<u>\$ 288,514</u>	<u>\$ 248,587</u>

Pledges are receivable as follows:

Less than one year	\$ 233,389
Two to five years	<u>55,125</u>
	<u>\$ 288,514</u>

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**NOTE 3 - GRANTS RECEIVABLE**

Grants receivable consist of amounts due from government agencies or private donors, based on the terms of the related grant agreements. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationships with the government agency of private donor and the age of the receivable balance. As a result of these reviews, balances deemed uncollectible are written off and charged to bad debt. Management does not believe there are any amounts of grants receivable that are uncollectible therefore there have been no charges to bad debts for the years ended December 31, 2016 and 2015. Grants receivable as of December 31, 2016 and 2015, respectively are \$-0- and \$143,000. All amounts are considered current and collectible within one year.

**NOTE 4 - BEQUEST RECEIVABLE**

The Society is a beneficiary to an estate trust. The trust transferred stock of \$5,365,176 and real estate of \$1,229,128 in payment of the bequest receivable of \$6,540,480 and additional contribution of \$53,824 in 2015. There are no donor restrictions on the funds. The bequest receivable was discounted at the federal prime rate of 3.25%. Bequest receivable activity for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015
Beginning bequest receivable	\$ -		\$ 6,540,480
Bequest receivable	-		-
Bequest payments	-		(6,540,480)
Total bequest receivable	\$ -		\$ -

**NOTE 5 - 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, 2016 and 2015:

	2016		2015	
	FMV	Cost	FMV	Cost
Real estate partnerships	\$ 647,667	\$ 678,477	\$ 599,646	\$ 630,956
Money market	156,461	156,461	254,424	254,424
Mutual funds				
Fixed income	2,532,949	2,555,854	2,271,795	2,269,709
Equities	3,942,699	3,537,184	3,657,684	3,237,857
	\$ 7,279,776	\$ 6,927,976	\$ 6,783,549	\$ 6,392,946

Investment Maturities

Maturities for the above listed investments as of December 31, 2016 and 2015 are as follows:

	2016		2015
Short-term investments equals	\$ -		\$ 50,000
Long-term investments	7,279,776		6,733,549
	\$ 7,279,776		\$ 6,783,549

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**NOTE 5 - INVESTMENTS - Continued**

The following schedule summarizes the investment return in the Statements of Activities for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning Investment Balance	\$ 6,783,549	\$ 2,464,779
Interest/dividends	153,134	120,203
Management fees	(45,949)	(32,878)
Realized gains/(losses)	453,084	768,632
Unrealized gains/(losses)	(38,803)	(299,307)
Contributions/pledge payments	479,283	5,460,689
Withdrawals/distributions	(504,522)	(1,698,569)
Ending Investment Balance	<u>\$ 7,279,776</u>	<u>\$ 6,783,549</u>

**NOTE 6 - 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, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

- *Equities*: The Society's equity securities are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets. (Level 1 inputs- market approach).
- *Fixed income securities*: Fair values of U.S. Government and corporate securities reflect closing prices reported in the active markets in which the securities are traded. (Level 1 inputs -market approach).
- *Money market*: The fair value of investments money market funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs- market approach).
- *Real estate*: Society real estate holdings consist of an investment in a publicly traded real estate investment trust. The fair value of this investment is readily marketable and is determined by obtaining quoted prices on a nationally recognized securities exchange (level 1 inputs- market approach).
- *Beneficial interest in assets held by others*: The fair value of beneficial interests in trust assets was determined based upon the present value of future cash flows from the trusts, an amount no greater than the asset value of the trust. The trust cannot be redeemed by management. (Level 3 inputs- income approach)



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**NOTE 6 - 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, 2016 and 2015:

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

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

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, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Beginning balance	\$ 937,146	\$ 7,192,969
Contribution transfer	(46,650)	(46,500)
Beneficiary interest gain	53,447	291,955
Distribution to Society	-	(6,501,278)
	\$ 943,943	\$ 937,146

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**NOTE 7 - ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS**

The Society's endowment consists of three individual funds established for the support of their mission. The endowment includes permanent restricted net assets. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Community Foundation returned the endowment funds held by their organization in 2015 at the request of the Society. Through historical research by the Society and The Community Foundation, the origin of these funds were determined to be Board Designated endowment. After the funds were returned, the Society's Board unrestricted the funds in 2015 as indicated by the reclassification in the Statement of Activities. Endowment net asset composition by type of fund as of December 31, 2016 and 2015 are as follows:

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

Permanently Restricted Net Assets	Purpose	2015			
		Beginning Balance	Contribution Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust Benefits Receivable	Operating	\$ 261,245	\$ (11,500)	\$ (14,826)	\$ 234,919
Wells Fargo Jantzen Trust Benefits Receivable	Operating	785,433	(35,000)	(48,206)	702,227
Corpus of Community Foundation	Operating	<u>500,000</u>	<u>(500,000)</u>	<u>-</u>	<u>-</u>
		<u>\$ 1,546,678</u>	<u>\$ (546,500)</u>	<u>\$ (63,032)</u>	<u>\$ 937,146</u>

Change in endowment net assets for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Beginning Permanently Restricted	\$ 937,146	\$ 1,542,317
Change in value	53,447	(57,171)
Reclassifications	-	(500,000)
Distribution	<u>(46,650)</u>	<u>(48,000)</u>
Ending Permanently Restricted	<u>\$ 943,943</u>	<u>\$ 937,146</u>

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**NOTE 7 - ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS - Continued**

Permanently restricted net assets include the endowment fund assets; to be held indefinitely. The income from the assets may be used to support the Society's activities, subject to donor-imposed restrictions. The Society's policy for determining the portion of endowment earnings permitted to be included in operations is controlled by the trustees of the funds, generally 4% to 5 % of a three year moving average of the trust's market value; these funds are distributed from the trustee to the Society. Only the permanently restricted corpus remains in the endowment. Endowment beneficiary interest in perpetual trust transferred \$46,650 and \$48,000 in 2016 and 2015. 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, 2016 and 2015.

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

The Society has temporarily restricted net assets available for the following purposes and time restrictions as of December 31, 2016 and 2015:

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

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**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS - Continued**

2015

Temporarily Restricted Net Assets Description	Purpose	Beginning Balance	Contribu- tions	Disburse- ments	Reclassi- fications	Ending Balance
ASPCA	Pet Retention	\$ -	\$ 25,000	\$ -	\$ -	\$ 25,000
Bresnan grant - cameras	Bark Scholarships	2,470	-	(2,470)	-	-
Pet for life	Demographic	9,896	-	(9,896)	-	-
Festoon Foundation	Spay/Neuter	-	-	-	-	-
Community	Spending policy	233,837	-	(30,996)	(202,841)	-
No Kill SC	No kill campaign	-	500,000	(36,812)	-	463,188
Misc. Private Charitable Trust	Spay/Neuter	-	103,600	-	-	103,600
Pledge receivable for capital campaign	Debt Service	31,737	-	(17,100)	-	14,637
Greater Good	Equine Rescue	-	3,000	-	-	3,000
Private Charitable Trust	Animal Help Resource Desk	-	10,000	-	-	10,000
Bequest receivable	Shelter	6,150,652	-	-	(6,150,652)	-
		<u>\$ 6,428,592</u>	<u>\$ 641,600</u>	<u>\$ (97,274)</u>	<u>\$ (6,353,493)</u>	<u>\$ 619,425</u>

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**NOTE 9 - PROPERTY & EQUIPMENT**

Property and equipment consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Depreciable assets:		
Furniture and equipment	\$ 794,696	\$ 752,392
Vehicles	99,074	99,074
Building	<u>9,143,058</u>	<u>9,143,058</u>
Total property and equipment	10,036,828	9,994,524
Less: accumulated depreciation	<u>(2,645,080)</u>	<u>(2,320,524)</u>
	7,391,748	7,674,000
Non depreciable assets:		
Construction in process	360,185	-
Land	<u>641,000</u>	<u>400,000</u>
Total property and equipment	<u>\$ 8,392,933</u>	<u>\$ 8,074,000</u>

Depreciation expense for the years ended December 31, 2016 and 2015 are \$324,555 and \$322,212. Construction in process includes a building renovation and mobile spay/neuter clinic. Estimated cost to completion is \$1,400,000 and \$175,800, respectively. Estimated completion dates are July 2017 and March 2017, respectively. During 2016, the Society received an in-kind donation of land valued at \$241,000 based upon county tax assessment values.

**NOTE 10 - LINE OF CREDIT**

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

**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, 2016 and 2015, the Society had uninsured cash of \$645,741 and \$391,746.

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**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 2016, the Society received 9,431 animals from animal control agencies and Charleston County citizens, which represents 100% of the animal intake for the organization. The Society received \$1,310,705 from Charleston County under the contract which is 37% of the actual \$3,564,158 cost of animal disposition. The concentration of animal intake from Charleston County related to one vendor contract is a risk to the organization.

Actual cost of animal disposition for 2016 was \$369 per animal of which Charleston County paid \$139 per animal disposition. The Society must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

In 2015, the Society received 9,454 animals from animal control agencies and Charleston County citizens, which represents 100% of the animal intake for the organization. The Society received \$1,302,477 from Charleston County under the contract which is 34% of the actual \$3,564,158 cost of animal disposition. The concentration of animal intake from Charleston County related to one vendor contract is a risk to the organization.

Actual cost of animal disposition for 2015 was \$377 per animal of which Charleston County paid \$138 per animal disposition. 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, 2016 and 2015 were \$24,812 and \$20,576.

**NOTE 14 - RELATED PARTIES TRANSACTIONS**

The Society received \$607,528 and \$717,838 in contributions and pledge payments from members of its Board of Directors for years ended December 31, 2016 and 2015, respectively. The outstanding balance of promises to give from the Board members at December 31, 2016 and 2015 was \$88,967 and \$375,500, respectively.

**NOTE 15 - 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.