

CHARLESTON ANIMAL SOCIETY

FINANCIAL REPORT

DECEMBER 31, 2021 and 2020

CHARLESTON ANIMAL SOCIETY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Charleston Animal Society
North Charleston, South Carolina

Opinion

We have audited the financial statements of Charleston Animal Society, which comprise the statements of financial position as of December 31, 2021 and 2020 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Charleston Animal Society as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Charleston Animal Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Charleston Animal Society's ability to continue as a going concern for one year after the date that the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Charleston Animal Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Charleston Animal Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

DCLPAS, LLC dba Davis Company CPAs

Mount Pleasant, South Carolina
February 22, 2022

CHARLESTON ANIMAL SOCIETY
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021 and 2020

ASSETS	2021	2020
CURRENT ASSETS		
Cash and cash equivalents, without donor restriction	\$ 1,680,097	\$ 3,177,203
Accounts receivable	15,044	106,583
Contributions receivable, net	407,850	120,831
Prepaid expense	56,635	21,123
Inventories	121,412	98,539
Security deposits	-	346
Total current assets	2,281,038	3,524,625
PROPERTY AND EQUIPMENT		
Land	715,257	715,257
Property and equipment, net	8,074,289	8,447,446
Total property and equipment	8,789,546	9,162,703
INVESTMENTS, LONG TERM		
	15,903,203	12,029,608
OTHER ASSETS		
Beneficiary interest in perpetual trusts held by others	1,178,334	1,109,515
Total other assets	1,178,334	1,109,515
TOTAL ASSETS	\$ 28,152,121	\$ 25,826,451
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 96,079	\$ 160,495
Payroll related liabilities	230,598	211,836
Deferred revenue	-	84,495
Current portion of long term debt	126,826	123,031
Total current liabilities	453,503	579,857
LONG-TERM LIABILITIES		
Note payable	620,885	747,620
Total long-term liabilities	620,885	747,620
TOTAL LIABILITIES	1,074,388	1,327,477
NET ASSETS		
Without donor restrictions	12,294,637	9,786,651
Board designated - property fund	8,789,546	9,162,703
Board designated - working capital fund	500,000	500,000
Board designated - endowment fund	3,122,515	3,122,515
With donor restrictions	2,371,035	1,927,105
Total net assets	27,077,733	24,498,974
TOTAL LIABILITIES AND NET ASSETS	\$ 28,152,121	\$ 25,826,451

See accompanying notes.

CHARLESTON ANIMAL SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES			
Contributions and grants	\$ 3,112,891	\$ 1,324,477	\$ 4,437,368
Resale contributions	287,809	-	287,809
In-kind contributions	408,729	-	408,729
Program and service	1,432,768	-	1,432,768
Government service contract	2,079,000	-	2,079,000
Special events, net \$182,510 expense	427,044	-	427,044
Investment income, net of \$46,493 in fees	388,401	-	388,401
Realized gain on investments	245,628	-	245,628
Unrealized gain on investments	1,077,928	-	1,077,928
Change in value of beneficiary interest	-	77,702	77,702
Bingo income	34,291	-	34,291
	<u>9,494,489</u>	<u>1,402,179</u>	<u>10,896,668</u>
Net assets released from restrictions	958,249	(958,249)	-
Total support and revenues	10,452,738	443,930	10,896,668
EXPENSES			
Program and services	6,274,650	-	6,274,650
Management	302,525	-	302,525
Fundraising	1,740,734	-	1,740,734
Total expenses	<u>8,317,909</u>	<u>-</u>	<u>8,317,909</u>
INCREASE IN NET ASSETS	2,134,829	443,930	2,578,759
NET ASSETS, beginning of year	<u>22,571,869</u>	<u>1,927,105</u>	<u>24,498,974</u>
NET ASSETS, end of year	<u>\$ 24,706,698</u>	<u>\$ 2,371,035</u>	<u>\$ 27,077,733</u>

See accompanying notes.

CHARLESTON ANIMAL SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions and grants	\$ 3,189,513	\$ 1,593,577	\$ 4,783,090
Resale contributions	223,454	-	223,454
In-kind contributions	297,859	-	297,859
Program and service	1,130,643	-	1,130,643
Government service contract	2,079,000	-	2,079,000
Special events, net \$93,698 expense	352,271	-	352,271
Investment income, net of \$37,303 in fees	226,601	-	226,601
Realized loss on investments	4,892	-	4,892
Unrealized gain on investments	1,336,105	-	1,336,105
Change in value of beneficiary interest	-	89,013	89,013
Bingo income	40,261	-	40,261
	8,880,599	1,682,590	10,563,189
Net assets released from restrictions	1,558,669	(1,558,669)	-
Total support and revenues	10,439,268	123,921	10,563,189
EXPENSES			
Program and services	5,710,222	-	5,710,222
Management	323,334	-	323,334
Fundraising	1,439,885	-	1,439,885
	7,473,441	-	7,473,441
Total expenses	7,473,441	-	7,473,441
INCREASE IN NET ASSETS	2,965,827	123,921	3,089,748
NET ASSETS, beginning of year	19,606,042	1,803,184	21,409,226
NET ASSETS, end of year	\$ 22,571,869	\$ 1,927,105	\$ 24,498,974

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Program and Services</u>	<u>Manage- ment</u>	<u>Fund- raising</u>	<u>Total</u>
COMPENSATION AND RELATED EXPENSES				
Salaries	\$ 3,029,355	\$ 207,240	\$ 517,894	\$ 3,754,489
Employee benefits	398,394	9,486	51,043	458,923
Payroll taxes	193,507	44,015	41,302	278,824
Total compensation and related expenses	3,621,256	260,741	610,239	4,492,236
OTHER EXPENSES				
Animal expenses	782,675	-	36,097	818,772
Public relations	186,307	1,606	490,084	677,997
Resale store	-	-	303,168	303,168
Veterinary care expenses	380,236	-	-	380,236
Utilities	213,288	6,431	60,873	280,592
Building maintenance	120,570	3,710	38,954	163,234
Computer and equipment	111,145	3,004	10,514	124,663
Insurance	100,005	12,433	6,722	119,160
Contract services	68,581	-	30,900	99,481
Bank fees	35,642	-	59,038	94,680
Professional fees	38,299	410	1,609	40,318
Office expense	32,074	3,418	24,202	59,694
Interest	24,863	-	-	24,863
Employee training	21,340	160	11,965	33,465
Miscellaneous	25,371	10,612	8,133	44,116
Education expenses	6,503	-	-	6,503
Bad debt	-	-	48,236	48,236
Automobile	21,943	-	-	21,943
Travel and entertainment	98	-	-	98
TOTAL EXPENSES BEFORE DEPRECIATION	5,790,196	302,525	1,740,734	7,833,455
Depreciation	484,454	-	-	484,454
TOTAL FUNCTIONAL EXPENSES	\$ 6,274,650	\$ 302,525	\$ 1,740,734	\$ 8,317,909

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program and Services	Manage- ment	Fund- raising	Total
COMPENSATION AND RELATED EXPENSES				
Salaries	\$ 2,802,975	\$ 251,155	\$ 413,755	\$ 3,467,885
Employee benefits	372,338	7,411	33,758	413,507
Payroll taxes	161,658	40,498	30,634	232,790
Total compensation and related expenses	3,336,971	299,064	478,147	4,114,182
OTHER EXPENSES				
Animal expenses	783,338	-	8,058	791,396
Public relations	83,664	-	480,644	564,308
Resale store	-	-	234,389	234,389
Veterinary care expenses	202,535	-	-	202,535
Utilities	210,146	-	47,400	257,546
Building maintenance	124,690	-	-	124,690
Computer and equipment	80,002	2,469	78,742	161,213
Insurance	128,552	-	-	128,552
Contract services	80,355	-	14,670	95,025
Bank fees	32,059	6,712	55,570	94,341
Professional fees	38,635	-	13,245	51,880
Office expense	21,177	1,115	19,604	41,896
Interest	34,743	-	-	34,743
Employee training	16,766	3,565	5,746	26,077
Miscellaneous	17,088	10,409	3,670	31,167
Education expenses	6,716	-	-	6,716
Automobile	23,402	-	-	23,402
Travel and entertainment	51	-	-	51
TOTAL EXPENSES BEFORE DEPRECIATION	5,220,890	323,334	1,439,885	6,984,109
Depreciation	489,332	-	-	489,332
TOTAL FUNCTIONAL EXPENSES	\$ 5,710,222	\$ 323,334	\$ 1,439,885	\$ 7,473,441

See accompanying notes.

CHARLESTON ANIMAL SOCIETY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,578,759	\$ 3,089,748
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	484,454	489,332
Forgiveness of Paycheck Protection Program loan	-	(730,060)
Decrease (increase) in current assets:		
Accounts receivable	91,539	(75,204)
Contributions receivable	(287,019)	43,278
Bequest receivable	-	250,000
Security deposits	346	6,149
Prepaid expenses	(35,512)	28,417
Inventory	(22,873)	(8,162)
Increase (decrease) in operating liabilities:		
Accounts payable	(64,416)	27,733
Payroll related liabilities	18,762	30,074
Deferred revenue	(84,495)	84,495
Net cash provided by operating activities	2,679,545	3,235,800
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(111,297)	(131,594)
Proceeds from sale of securities	1,689,003	3,762,652
Unrealized loss (gain) on investments	(1,077,928)	(1,241,491)
Change in beneficiary interest in trust	(68,819)	(89,013)
Purchase of securities - net reinvested earnings	(4,484,670)	(4,991,448)
Net cash provided (used) in investing activities	(4,053,711)	(2,690,894)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program loan	-	730,060
Payments on note payable	(122,940)	(445,412)
Net cash provided (used) in financing activities	(122,940)	284,648
Net increase (decrease) in cash and cash equivalents	(1,497,106)	829,554
Cash and cash equivalents as of beginning of year	3,177,203	2,347,649
Cash and cash equivalents as of end of year	\$ 1,680,097	\$ 3,177,203
Supplemental Disclosures:		
Noncash investing and financing activities:		
Interest paid	\$ 24,863	\$ 34,743

See accompanying notes.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

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's 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 from 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, 2021 AND 2020

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.

Board Designated Net Assets

Board designated net assets are assets without donor restriction that the board has set aside for a specific purpose.

Property fund are resources restricted for building and property improvements, replacements and additions.
Working capital fund are resources restricted for programs or expenses that need funding.
Endowment fund are resources restricted for an endowment fund.

In order for funds to be spent out of the funds there would need to be a vote of 52% by the board of directors.

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.

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, 2021 AND 2020

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 \$20,000, 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 support with donor restrictions, 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 in perpetuity.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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

Endowment Funds

For the year end December 31, 2008, South Carolina adopted the State Prudent Management of Institutional Funds Act (SPMIFA). The Board of Directors of the Society has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as 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:

- (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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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. A maximum of 20 days may be carried over to the next year.

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 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.

Revenue Recognition Policy

The Society derives revenues primarily from grants, contributions and program and services fees. The Society recognizes contributions when cash, securities or other assets, an unconditional promise to give (contribution receivable) or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions are met.

The Society recognizes program and services fees during the year in which the program or service is provided to the customer. The performance obligation of delivery these services is simultaneously received and consumed by the customer; therefore, revenue is recognized at the point in time of when the program or service is delivered. All amounts received prior to the commencement of the specific program or service are deferred to the applicable period.

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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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 \$220,650 and \$85,583 for the years ended December 31, 2021 and 2020, respectively.

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 files and Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report it's unrelated business taxable income. 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.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-13 Fair Value Measurement (Topic 820). The ASU changes the disclosure requirements for fair value measurement guidance in U.S. GAAP. The Society adopted the new standard effective January 1, 2021, the first day of the Society's fiscal year, using the full retrospective method.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 and 2020, comprise of the following at December 31:

	<u>2021</u>	<u>2020</u>
Financials assets:		
Cash and cash equivalents, unrestricted	\$ 1,680,097	\$ 3,177,203
Accounts receivable	15,044	106,583
Investments	15,903,203	12,029,608
Other assets	1,178,334	1,109,515
Contributions receivable, net	<u>407,850</u>	<u>120,831</u>
Total financial assets	19,184,528	16,543,740
Less financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets	(1,963,185)	(1,807,751)
Less financial assets not available within one year:		
Board designated net assets - working capital	(500,000)	(500,000)
Board designated net assets - endowment fund	(3,122,515)	(3,122,515)
Contributions receivable	<u>(309,089)</u>	<u>(42,580)</u>
Amount available for general expenditures within one year	<u>\$ 13,289,739</u>	<u>\$ 11,070,894</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.

- continued -

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

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 contribution's receivable are due as follows as of December 31:

	2021	2020
Beginning contributions		
receivable balance	\$ 134,131	\$ 164,109
Contribution commitments	544,360	50,500
Contribution payments	(201,905)	(80,478)
	476,586	134,131
Less bad debt write-offs	(20,500)	(13,300)
Less allowance for bad debt	(48,236)	-
Ending contributions receivable		
balance	\$ 407,850	\$ 120,831
	2021	2020
Beginning bequest receivable	\$ -	\$ 250,000
Bequest receivable	-	-
Bequest payments	-	(250,000)
Total bequest receivable	\$ -	\$ -

Contributions are receivable as follows:

Less than one year	\$ 146,997
Two to five years	309,089
	\$ 456,086

The Society received a bequest receivable during December 31, 2018 for \$500,000 and is restricted for the purpose to care for the animals. The Society received the remaining \$250,000 in 2020. The entire bequest was paid as of December 31, 2020.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 and 2020:

	2021		2020	
	FMV	Cost	FMV	Cost
Real estate partnerships	\$ 143,033	\$ 97,371	\$ 78,561	\$ 68,025
Money market	294,839	294,839	174,391	174,391
Exchange traded funds	5,288,390	3,689,124	4,344,774	3,350,125
Mutual funds				
Fixed income	421,543	410,985	437,177	410,986
Equities	4,780,510	2,506,434	3,581,562	2,174,056
Bond Funds	2,916,326	2,969,298	2,475,015	2,435,696
Equity Funds	2,058,562	2,064,300	938,128	761,609
	<u>\$ 15,903,203</u>	<u>\$ 12,032,351</u>	<u>\$ 12,029,608</u>	<u>\$ 9,374,888</u>

NOTE 5 - SUMMARY OF FAIR VALUE EXPOSURE

ASC 820 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

- Level 1: Quoted prices in active markets for identical securities
- Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)
- Level 3: Significant unobservable inputs (including the Society's own assumptions in determining the fair value of investments)

For the years ended December 31, 2021 and 2020, 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.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

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

The following tables provide fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 143,033	\$ -	\$ -	\$ 143,033
Money market	294,839	-	-	294,839
Mutual funds	10,176,941	-	-	10,176,941
Exchange traded funds	5,288,390	-	-	5,288,390
Beneficiary interest in perpetual trust held by others	-	-	1,178,334	1,178,334
	\$ 15,903,203	\$ -	\$ 1,178,334	\$ 17,081,537

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Real estate mutual funds	\$ 78,561	\$ -	\$ -	\$ 78,561
Money market	174,391	-	-	174,391
Mutual funds	7,431,882	-	-	7,431,882
Exchange traded funds	4,344,774	-	-	4,344,774
Beneficiary interest in perpetual trust held by others	-	-	1,109,515	1,109,515
	\$ 12,029,608	\$ -	\$ 1,109,515	\$ 13,139,123

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

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, 2021 and 2020:

	2021	2020
Beginning balance	\$ 1,109,515	\$ 1,020,502
Contribution transfer	(46,000)	-
Beneficiary interest gain	114,819	89,013
	\$ 1,178,334	\$ 1,109,515

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

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, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Purpose restrictions, available for spending:		
Spay/Neuter	\$ 243,750	\$ 209,680
Education	9,215	5,995
No kill campaign	109,177	28,028
Capital campaign	-	1,000
Maddie's fund	20,000	50,000
Memorial garden	96,584	117,715
WaterShed animal fund	-	80,740
Adoption preparation	-	65,000
Outreach	8	7,500
Veterinary care	13,800	7,000
Play yard and behavior evaluation area	199,160	50,578
ASCPA disaster response	13,157	75,000
Relocation transfers	30,000	-
Petco love stories	50,000	-
Beneficiary trust	1,178,334	1,109,515
Total purpose restrictions	<u>1,963,185</u>	<u>1,807,751</u>
<u>Time restrictions:</u>		
Contribution receivables not restricted by donors, but are unavailable for expenditure until due	<u>407,850</u>	<u>119,354</u>
Total time restrictions	<u>407,850</u>	<u>119,354</u>
 Total net assets with donor restrictions	 <u>\$ 2,371,035</u>	 <u>\$ 1,927,105</u>

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

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, 2021 and 2020 are as follows:

Restricted Net Assets	Purpose	2021			
		Beginning Balance	Contribution Transfer	Beneficiary Interest Gain	Ending Balance
Wells Fargo Smith Trust Benefits					
Receivable	Operating	\$ 279,465	\$ (10,000)	\$ 29,438	\$ 298,903
Wells Fargo Jantzen Trust Benefits					
Receivable	Operating	830,050	(36,000)	85,381	879,431
		<u>\$ 1,109,515</u>	<u>\$ (46,000)</u>	<u>\$ 114,819</u>	<u>\$ 1,178,334</u>
Restricted Net Assets	Purpose	2020			
		Beginning Balance	Contribution Transfer	Beneficiary Interest Loss	Ending Balance
Wells Fargo Smith Trust Benefits					
Receivable	Operating	\$ 255,502	\$ -	\$ 23,963	\$ 279,465
Wells Fargo Jantzen Trust Benefits					
Receivable	Operating	765,000	-	65,050	830,050
		<u>\$ 1,020,502</u>	<u>\$ -</u>	<u>\$ 89,013</u>	<u>\$ 1,109,515</u>

Change in endowment net assets for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Beginning restricted net assets	\$ 1,109,515	\$ 1,020,502
Change in value	114,819	89,013
Distribution	(46,000)	-
Ending restricted net assets	<u>\$ 1,178,334</u>	<u>\$ 1,109,515</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 \$-0- in 2021 and 2020. These distributions were recognized in contributions.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 - ENDOWMENT AND DONOR RESTRICTED NET ASSETS - (continued)

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, 2021 and 2020.

NOTE 8 - PROPERTY & EQUIPMENT

Property and equipment consist of the following as of December 31, 2021 and 2020:

	2021	2020
Depreciable assets:		
Furniture and equipment	\$ 1,562,599	\$ 1,451,302
Vehicles	347,142	347,142
Building	10,867,812	10,867,812
Total property and equipment	12,777,553	12,666,256
Less: accumulated depreciation	(4,703,264)	(4,218,810)
	8,074,289	8,447,446
Non depreciable assets:		
Land	715,257	715,257
Total property and equipment	\$ 8,789,546	\$ 9,162,703

Depreciation expense for the years ended December 31, 2021 and 2020 are \$484,454 and \$489,332.

NOTE 9 - LEASE

The Society entered into an operating lease for rent of a retail space 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 for the 3rd year, \$6,667 for the 4th year and \$6,869 for the 5th year. Other fees include operating expense of \$872 per month, tax payment of \$729 per month, insurance payment of \$171 per month. The Society entered into a copier lease beginning December 2016 and expiring March 2022. Lease payments on this lease are \$982 per month. As of December 31, 2021, the following is a schedule of estimated future minimum lease payments on real properties due monthly.

2022	\$ 105,254
2023	17,283
	\$ 122,537

Total rent expense for the years ended December 31, 2021 and 2020 was \$123,668 and \$131,485, respectively.

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.

**CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 10 - NOTES PAYABLE - (continued)

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.

On May 6, 2019, the Society entered into a \$400,000 loan with a maturity date of May 07, 2022 and an interest rate of 4.25%. Monthly payments are \$11,866.29 including principle and interest. This loan became due in full in March 2020 when the other bank became made aware that the Society was in default of the loan covenants for the loan noted above. The balance of this loan was paid off in February 2020.

The Society received a loan from Pinnacle Bank in the amount of \$730,060 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 29, 2020. The Society applied for and has been notified that \$730,060 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven as of December 1, 2020. Loan forgiveness is reflected in contributions in the accompanying Statement of Activities.

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

2022	\$	126,826
2023		130,738
2024		134,730
2025		138,926
2026		143,211
Thereafter		73,281
	\$	<u>747,712</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, 2021 and 2020, the Society had uninsured cash of \$1,027,135 and \$2,552,237.

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 2021, the Society received 6,304 animals from animal control agencies and Charleston County citizens, which represents 87% of the animal intake for the organization. The Society received \$2,079,000 from Charleston County under the contract which is 65% of the actual cost (\$3,194,684) 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 2021 was \$592 per animal of which Charleston County paid \$330 per animal disposition. The Society must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

CHARLESTON ANIMAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 12 - OTHER CONCENTRATION RISK – (continued)

In 2020, the Society received 4,970 animals from animal control agencies and Charleston County citizens, which represents 83% of the animal intake for the organization. The Society received \$2,079,000 from Charleston County under the contract which is 78% of the actual cost (\$2,653,400) 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 2020 was \$534 per animal of which Charleston County paid \$418 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 adopted a 401(k) Profit Sharing Plan effective January 1, 2019. The Society will match the employees' contributions 100% of the salary deferrals up to 3%. The Plan was restated effective February 1, 2021 to increase the Society's match to 100% of the salary deferrals up to 4%. Employees may contribute to the plan once they become eligible at the age of 18. The Society's retirement expense for the years ended December 31, 2021 and 2020 were \$108,143 and \$73,653, respectively.

NOTE 14 - RELATED PARTIES TRANSACTIONS

The Society received \$857,542 and \$243,026 in contributions and pledges from members of its Board of Directors for years ended December 31, 2021 and 2020, respectively. The outstanding balance of promises to give from the Board members at December 31, 2021 and 2020 was \$158,000 and \$10,000, 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, 2021. 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 - RISKS AND UNCERTAINTIES

The impact of the accompanying financial statements of the COVID-19 outbreak cannot be readily determined. Financial markets, distribution networks and the ultimate impact of this outbreak on the financial operations of the Society are difficult to assess and predict. The Society is taking steps to mitigate the impact of the outbreak, but the ultimate success of this endeavor cannot be predicted.

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to year end through the report date, the date the financial statements were available to be issued.