

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE AMOUNTS FOR 2013)**

**MINGIS, GUTOWSKI & COMPANY, LLP
Certified Public Accountants
Swarthmore, Pennsylvania**

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Chester County Society for the Prevention of Cruelty to Animals
West Chester, Pennsylvania

We have audited the accompanying financial statements of the Chester County Society for the Prevention of Cruelty to Animals (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 the Chester County Society for the Prevention of Cruelty to Animals as of December 31, 2014, 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.

Other Matters

Report on Summarized Comparative Information

The prior year's comparative information has been derived from the Organization's December 31, 2013 financial statements which were audited by other auditors, whose report dated November 6, 2014, expressed an unmodified opinion on those financial statements. In the opinion of the other auditors, the comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mingis, Gutowski & Company, LLP

Swarthmore, Pennsylvania
August 17, 2015

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

STATEMENTS OF FINANCIAL POSITION

**DECEMBER 31, 2014
(WITH COMPARATIVE AMOUNTS FOR 2013)**

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 623,689	\$ 983,162
Short-term investments, other	12,315	12,300
Unconditional support receivable	11,000	43,000
Other receivables	27,954	4,797
Prepaid expenses	13,862	11,014
Current portion of contributions receivable from charitable lead annuity trusts	<u>26,989</u>	<u>25,694</u>
TOTAL CURRENT ASSETS	<u>715,809</u>	<u>1,079,967</u>
NONCURRENT ASSETS		
Long-term investments	3,054,906	2,830,079
Property and equipment, net of accumulated depreciation of \$929,244 (2014) and \$845,672 (2013)	2,330,707	2,346,571
Contributions receivable from charitable lead annuity trusts, net of current portion	326,530	353,519
Beneficial interest in perpetual trusts	<u>454,259</u>	<u>448,457</u>
TOTAL NONCURRENT ASSETS	<u>6,166,402</u>	<u>5,978,626</u>
TOTAL ASSETS	<u>\$ 6,882,211</u>	<u>\$ 7,058,593</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 37,817	\$ 23,181
Current portion of long-term debt	20,493	10,188
Accrued payroll and payroll taxes	30,165	22,889
Deferred revenue	<u>74,515</u>	<u>96,578</u>
TOTAL CURRENT LIABILITIES	<u>162,990</u>	<u>152,836</u>
LONG-TERM DEBT	<u>853,126</u>	<u>875,612</u>
TOTAL LIABILITIES	<u>1,016,116</u>	<u>1,028,448</u>
NET ASSETS		
Unrestricted	4,961,998	5,097,860
Temporarily restricted	399,838	433,828
Permanently restricted	<u>504,259</u>	<u>498,457</u>
TOTAL NET ASSETS	<u>5,866,095</u>	<u>6,030,145</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,882,211</u>	<u>\$ 7,058,593</u>

The accompanying notes are an integral part of these financial statements.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

STATEMENTS OF ACTIVITIES

**YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE AMOUNTS FOR 2013)**

2014	2013	
\$ 332,576	\$ 311,061	UNRESTRICTED NET ASSETS
		Revenues, gains and other support:
		Contributions
		Memorial funds and bequests
		Investment gain
		Program revenue
		Special events
		Special event costs
		Net assets released from restrictions
81,740	(97,847)	TOTAL REVENUES, GAINS AND OTHER SUPPORT
2,128,451	3,188,841	Expenses:
		Program services, animal welfare
		Supporting services:
		Management and general
		Fund-raising
225,807	137,659	TOTAL SUPPORTING SERVICES
100,213	112,678	TOTAL EXPENSES
326,020	250,337	CHANGE IN UNRESTRICTED NET ASSETS
(135,862)	1,388,920	TEMPORARILY RESTRICTED NET ASSETS
		Contributions
		Change in value of split-interest trust agreements
		Net assets released from restrictions
(81,740)	(575,428)	CHANGE IN TEMPORARILY RESTRICTED NET ASSETS
(33,990)	(492,721)	PERMANENTLY RESTRICTED NET ASSETS
		Gain (loss) in perpetual trusts
5,802	(54,767)	CHANGE IN NET ASSETS
\$ (164,050)	\$ 841,432	

The accompanying notes are an integral part of these financial statements.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

STATEMENTS OF CHANGES IN NET ASSETS

**YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE AMOUNTS FOR 2013)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
NET ASSETS AT DECEMBER 31, 2012	\$ 3,708,940	\$ 926,549	\$ 553,224	\$ 5,188,713
Change in net assets	<u>1,388,920</u>	<u>(492,721)</u>	<u>(54,767)</u>	<u>841,432</u>
NET ASSETS AT DECEMBER 31, 2013	5,097,860	433,828	498,457	6,030,145
Change in net assets	<u>(135,862)</u>	<u>(33,990)</u>	<u>5,802</u>	<u>(164,050)</u>
NET ASSETS AT DECEMBER 31, 2014	<u>\$ 4,961,998</u>	<u>\$ 399,838</u>	<u>\$ 504,259</u>	<u>\$ 5,866,095</u>

The accompanying notes are an integral part of these financial statements.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

STATEMENTS OF FUNCTIONAL EXPENSES

**YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE AMOUNTS FOR 2013)**

	2014				2013			
	Program Services	Supporting Services		Totals	Program Services	Supporting Services		Totals
	Animal Welfare	Management and General	Fund-Raising		Animal Welfare	Management and General	Fund-Raising	
FUNCTIONAL EXPENSES								
Payroll	\$ 935,281	\$ 53,880	\$ -	\$ 989,161	\$ 623,246	\$ 35,904	\$ -	\$ 659,150
Advertising and promotion	11,309	-	11,310	22,619	36,865	-	36,865	73,730
Ambulance expenses	24,596	-	-	24,596	31,711	-	-	31,711
Animal food	12,954	-	-	12,954	23,657	-	-	23,657
Animal supplies	125,950	-	-	125,950	74,340	-	-	74,340
Appeal expenses	-	-	52,372	52,372	-	-	40,933	40,933
Cruelty investigations and animal control	8,931	-	-	8,931	558	-	-	558
Depreciation	81,944	1,629	-	83,573	78,776	1,566	-	80,342
Development	-	-	36,531	36,531	-	-	34,880	34,880
Employee benefits	46,985	2,707	-	49,692	58,069	3,345	-	61,414
Insurance	42,795	4,083	-	46,878	42,972	4,100	-	47,072
Interest expense	39,900	-	-	39,900	45,628	-	-	45,628
Investment fees	16,023	16,023	-	32,046	11,740	11,740	-	23,480
Legal and accounting	19,889	59,670	-	79,559	9,943	29,831	-	39,774
Maintenance and repairs	90,573	-	-	90,573	65,342	-	-	65,342
Office administrative costs and supplies expense	114,818	43,718	-	158,536	21,536	8,200	-	29,736
Payroll taxes	79,330	4,570	-	83,900	55,141	3,177	-	58,318
Postage	7,408	804	-	8,212	7,600	825	-	8,425
Real estate taxes	4,202	-	-	4,202	4,202	-	-	4,202
Severance	-	-	-	-	27,268	-	-	27,268
Subcontractor expenses	5,427	30,756	-	36,183	5,642	31,971	-	37,613
Training and conference	1,368	-	-	1,368	4,911	-	-	4,911
Utilities and telephone	82,644	7,967	-	90,611	72,610	7,000	-	79,610
Veterinarian and medical supplies	185,966	-	-	185,966	247,827	-	-	247,827
TOTAL FUNCTIONAL EXPENSES	\$1,938,293	\$ 225,807	\$ 100,213	\$2,264,313	\$1,549,584	\$ 137,659	\$ 112,678	\$1,799,921

The accompanying notes are an integral part of these financial statements.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

STATEMENTS OF CASH FLOWS

**YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE AMOUNTS FOR 2013)**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (164,050)	\$ 841,432
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Investment fees	32,046	23,480
Dividends reinvested in long-term investments	(105,474)	(75,880)
Depreciation	83,573	80,342
Realized gains on long-term investments	(94,188)	(171,892)
Unrealized gains on long-term investments	(71,249)	(64,599)
(Gain) loss in perpetual trusts	(5,802)	54,767
Changes in:		
Unconditional support receivable	32,000	445,010
Other receivables	23,157	(4,797)
Prepaid expenses	(2,848)	8,568
Contributions receivable from charitable lead annuity trusts	25,694	24,461
Accounts payable	14,636	8,343
Accrued payroll and payroll taxes	7,276	6,779
Spaying and neutering program deposits	-	(2,000)
Deferred revenue	<u>(22,063)</u>	<u>31,382</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(247,292)</u>	<u>1,205,396</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(67,709)	(81,158)
Purchase of investments	(1,598,616)	(1,086,466)
Proceeds from investments	<u>1,566,325</u>	<u>460,917</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(100,000)</u>	<u>(706,707)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	<u>(12,181)</u>	<u>(9,211)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(359,473)</u>	<u>489,478</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>983,162</u>	<u>493,684</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 623,689</u>	<u>\$ 983,162</u>

The accompanying notes are an integral part of these financial statements.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

STATEMENTS OF CASH FLOWS (CONTINUED)

**YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE AMOUNTS FOR 2013)**

	<u>2014</u>	<u>2013</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 39,900	\$ 45,628
Noncash investing and financing activities:		
Reinvestment of dividends	\$ 105,747	\$ 75,880
Investment fees paid using proceeds from the sale of investments	\$ 32,046	\$ 23,480
Reinvestment of proceeds from the sale of investments	\$ 1,566,325	\$ 435,360
Noncash investing and operating activities:		
Redemption of certificate of deposit paid directly to grantor	\$ -	\$ 25,557

The accompanying notes are an integral part of these financial statements.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Organization

The mission of the Chester County Society for the Prevention of Cruelty to Animals (the “Organization”) is to promote the welfare and humane treatment of animals; to prevent cruelty to animals by providing shelter for unwanted or stray animals; and to provide shelter, protection and adoption services for animals to the public community in Chester County, Pennsylvania. The Organization’s revenues are from contributions, program fees and fund-raising events. A significant amount of revenues, gains and other support received by the Organization is from the residents and businesses of Chester County. The Organization also receives funding through fees for services provided to municipal governments in Chester County.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses when incurred.

Income Tax Status

The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, donors currently qualify for the maximum charitable deduction allowed by the Internal Revenue Code.

Financial Statement Presentation

The Organization prepares its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under this standard, the Organization 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.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Unrestricted Net Assets – Unrestricted net assets consist of contributions that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Temporarily restricted net assets are restricted to contributions subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets – Permanently restricted net assets consist of contributions subject to donor-imposed stipulations that the contribution be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statements of activities as net assets released from restrictions.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Absent donor stipulations, the Organization records these gifts as unrestricted support. Long-lived assets are reported as permanently restricted only if the Organization must maintain the assets in perpetuity or if the donor explicitly restricts the proceeds from any future disposition of the assets to reinvestment in long-lived assets.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Capitalization and Depreciation

Property and equipment are stated at cost. Major improvements are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Depreciation is computed under the straight-line method over estimated useful lives of 40 years for the building and 5 to 12 years for building improvements and equipment. Donated property and equipment are recorded as fixed assets and reflected as contributions at their estimated values as of the date of receipt. Such contributions are reported as unrestricted support unless the donor has restricted the contributed asset to a specific purpose, in which case, the contributed asset is reported as temporarily restricted support. The Organization reclassifies temporarily restricted net assets to unrestricted net assets with the expiration of the donor restriction.

Contributions

The Organization reports revenue in accordance with FASB ASC 958-605, *Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Eleven estates accounted for approximately 11% of the Organization's support for the year ended December 31, 2014, and two estates accounted for approximately 33% of the Organization's support for the year ended December 31, 2013.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received. Promises to give are recorded at net realizable value if expected to be collected in one year and at the present value of the estimated future cash flows if expected to be collected in more than one year. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

A significant portion of the Organization's uncollateralized, unconditional support receivable is from donors located in Chester County, Pennsylvania.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Cash and Cash Equivalents

The Organization considers liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of funds in the Organization's checking, savings, money market accounts and certificates of deposit with original maturities of 90 days or less. Cash balances are insured by the Federal Deposit Insurance Corporation. As of December 31, 2014 and 2013, the uninsured portion of this balance was \$53,424 and \$656,710, respectively. The Organization has not experienced any loss in such accounts. Management believes the Organization is not exposed to any significant credit risk on its cash balances.

Investments

The Organization adopted FASB ASC 958-320, *Investments—Debt and Equity Securities*. Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Certificates of deposit held for investment that are not debt securities are included in "investments, other." Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "short-term investments, other." Certificates of deposit with remaining maturities greater than one year are classified as "long-term investments."

Donated Services

The Organization receives donated services related to its operations and special events. Donated services received in 2014 for building improvements to the Medical Clinic in the amount of \$15,000 were recognized in the financial statements as a capital improvement to the Organization's medical clinic.

Deferred Income

Deferred income consists of income from animal control contracts that was unearned as of the Organization's fiscal year-end.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Pension Plan

The Organization has a 403(b) pension plan covering all full-time employees who have attained the age of 21 and have completed one full year of eligible service. The plan is funded by voluntary employee contributions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results could differ from those estimates.

Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statements of activities. Accordingly, the expenses directly related to the program are allocated with certain common costs of the Organization based primarily on time spent and other estimates made by management.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2014 and 2013, were \$22,619 and \$73,730, respectively.

Date of Management's Review

Management has evaluated subsequent events through August 17, 2015, the date which the financial statements were available to be issued.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2014</u>	<u>2013</u>
Land	\$ 183,139	\$ 183,139
Buildings	2,752,737	2,737,737
Furniture and equipment	183,709	138,019
Vehicles	<u>140,366</u>	<u>133,348</u>
	3,259,951	3,192,243
Accumulated depreciation	<u>(929,244)</u>	<u>(845,672)</u>
	<u>\$ 2,330,707</u>	<u>\$ 2,346,571</u>

NOTE 3 INVESTMENTS

Investments are stated at fair market value and are comprised of the following:

	2014			2013		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains (Losses)</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains (Losses)</u>
Certificates of deposit	\$ 12,315	\$ 12,315	\$ -	\$ 22,298	\$ 22,644	\$ 346
Common/preferred stocks	1,258,847	1,375,466	116,619	1,025,906	1,215,498	189,592
Government securities	92,622	119,465	26,843	110,670	107,805	(2,865)
Corporate bonds	22,996	22,653	(343)	23,507	20,600	(2,907)
Exchange traded products	179,199	181,370	2,171	111,208	118,343	7,135
Mutual funds	1,260,777	1,282,070	21,293	1,192,754	1,279,993	87,239
Beneficial interest in assets held by the Community Foundation	<u>69,108</u>	<u>73,882</u>	<u>4,774</u>	<u>68,127</u>	<u>77,496</u>	<u>9,369</u>
	<u>\$2,895,864</u>	<u>\$3,067,221</u>	<u>\$ 171,357</u>	<u>\$ 2,554,470</u>	<u>\$ 2,842,379</u>	<u>\$ 287,909</u>

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

NOTE 3 INVESTMENTS (CONTINUED)

Investment return is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 105,474	\$ 75,880
Net realized and unrealized gains	<u>165,437</u>	<u>236,491</u>
	<u>\$ 270,911</u>	<u>\$ 312,371</u>

Beneficial interest in assets held by the Chester County Community Foundation (the "Foundation") are funds disbursed by the Organization to be held and invested by the Foundation on behalf of the Organization.

In addition, the Organization is a beneficiary of certain contributions received directly by the Foundation. Variance power authorizing the Foundation to determine the frequency and amount of distributions to the Organization is to remain vested in the Board of the Foundation unless investment results fail to achieve certain criteria for three consecutive years. Normal distributions are estimated to be up to 5% of the average year-end value of the fund. At December 31, 2014 and 2013, the Foundation held funds totaling \$50,040 and \$52,488, respectively, at fair market value in such accounts.

NOTE 4 FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a valuation hierarchy for disclosure of the inputs to the valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. *Level 2* inputs are quoted prices to similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. *Level 3* inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The assets carried at fair value measured on a recurring basis are summarized as follows:

	2014		2013	
	Level 1	Level 3	Level 1	Level 3
Common/preferred stocks	\$ 1,375,466	\$ -	\$ 1,215,498	\$ -
Certificates of deposit	-	-	10,369	-
Government securities	119,465	-	107,805	-
Corporate bonds	22,653	-	20,600	-
Exchange traded products	181,370	-	118,343	-
Mutual funds	1,282,070	-	1,279,968	-
Beneficial interest in assets held by the Community Foundation	-	73,882	-	77,496
Beneficial interest in perpetual trusts	454,259	-	448,457	-
Contributions receivable from charitable lead annuity trusts	-	353,519	-	379,213
	<u>\$ 3,435,283</u>	<u>\$ 427,401</u>	<u>\$ 3,201,040</u>	<u>\$ 456,709</u>

Investments in common/preferred stocks, government securities, corporate bonds and mutual funds have quoted prices for identical assets in active markets; therefore, the investments are measured at fair value using these readily available Level 1 inputs.

The beneficial interest in assets held by the Community Foundation and the beneficial interest in perpetual trusts were measured at fair value using net asset value based on the percentage of interest of the underlying assets. These assets were held by third parties and, accordingly, classified as Level 3 inputs.

The contributions receivable from charitable lead annuity trusts were derived using a discounted cash flow model with inputs derived from unobservable market data. The contributions receivable from charitable lead annuity trusts are included at their carrying values in the statements of financial position, which approximated their fair values at December 31, 2014 and 2013.

**CHESTER COUNTY SOCIETY FOR THE
PREVENTION OF CRUELTY TO ANIMALS**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Changes in the fair value of the Organization's Level 3 assets are summarized as follows:

**BENEFICIAL INTEREST IN ASSETS
HELD BY THE COMMUNITY FOUNDATION**

Balance, January 1, 2013	\$ 69,111
Realized gains	5,571
Unrealized gains	4,007
Fees	<u>(1,193)</u>
Balance, December 31, 2013	77,496
Realized gains	3,808
Unrealized losses	(2,134)
Grant expenditure	(4,044)
Fees	<u>(1,244)</u>
 BALANCE, DECEMBER 31, 2014	 <u>\$ 73,882</u>

BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Balance, January 1, 2013	\$ 503,224
Loss in perpetual trusts	<u>(54,767)</u>
Balance, December 31, 2013	448,457
Gain in perpetual trusts	<u>5,802</u>
 BALANCE, DECEMBER 31, 2014	 <u>\$ 454,259</u>

**CONTRIBUTIONS RECEIVABLE FROM
CHARITABLE LEAD ANNUITY TRUSTS**

Balance, January 1, 2013	\$ 403,674
Distribution paid to the Organization	(44,000)
Change in value of split-interest trust agreements	<u>19,539</u>
Balance, December 31, 2013	379,213
Distribution paid to the Organization	(44,000)
Change in value of split-interest trust agreements	<u>18,306</u>
 BALANCE, DECEMBER 31, 2014	 <u>\$ 353,519</u>

**CHESTER COUNTY SOCIETY FOR THE
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 CONTRIBUTIONS RECEIVABLE

Contributions receivable from charitable lead annuity trusts consist of the following:

	<u>2014</u>	<u>2013</u>
Beacham Charitable Lead Annuity Trust II discounted at 4.94%, annuity of \$22,000 paid quarterly for 201 years until December 31, 2022	\$ 143,721	\$ 158,172
Beacham Charitable Lead Annuity Trust III discounted at 4.94%, annuity of \$22,000 paid quarterly for 25 years until December 31, 2027	<u>209,798</u>	<u>221,041</u>
	<u>\$ 353,519</u>	<u>\$ 379,213</u>

A charitable lead annuity trust (CLAT) is an arrangement in which the donor establishes and funds a trust with a fixed dollar amount, and distributions are paid to a designated not-for-profit organization over a specified period. The Organization recognizes its beneficial interest in those assets as temporarily restricted contribution revenue and as a contribution receivable measured at the present value of the expected future cash inflows.

**CHESTER COUNTY SOCIETY FOR THE
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 CONTRIBUTIONS RECEIVABLE (CONTINUED)

Expected future cash flows for each of the next five years and in the aggregate are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 44,000
2016	44,000
2017	44,000
2018	44,000
2019	44,000
Thereafter	<u>239,228</u>
	459,228
Amount of unamortized discount	<u>(105,709)</u>
PRESENT VALUE OF EXPECTED FUTURE CASH FLOWS	 <u>\$ 353,519</u>

For the years ended December 31, 2014 and 2013, the amortized discount recorded in the statements of activities in the temporarily restricted net asset class as a change in the value of split-interest agreements was \$18,306 and \$19,513, respectively.

NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization is the beneficiary of two perpetual trusts. Under the terms of the split-interest agreements, the Organization is to receive investment income on the trusts' assets for its unrestricted use in perpetuity. As the Organization is to receive the investment income in perpetuity, the fair market value of the investments, based on the Organization's proportionate interest as an income beneficiary, is used to record the present value of future benefits expected to be received by the Organization.

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NOTES TO FINANCIAL STATEMENTS

NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUSTS (CONTINUED)

The beneficial interest in perpetual trusts reported on the statements of financial position consists of the following:

	<u>2014</u>	<u>2013</u>
Fanny T. Cochran Trust	\$ 208,973	\$ 207,257
Leonard Hastings Schoff Trust	<u>245,286</u>	<u>241,200</u>
	<u>\$ 454,259</u>	<u>\$ 448,457</u>

The trusts' assets are primarily invested in cash and cash equivalents and common stocks at December 31, 2014 and 2013.

NOTE 7 COMMERCIAL TERM LOANS

In December 2014, the Organization refinanced its commercial term loans to fund the expansion and renovation of the existing commercial property located in West Chester, Pennsylvania. The terms of the two loans are as follows:

- 1st loan - \$473,619, seven-year term with monthly payments of \$2,548.60, including interest at 4.125%, with a balloon payment due on December 1, 2021.
- 2nd loan - \$400,000, seven-year term with monthly payments of \$2,152.45, including interest at 4.125%, with a balloon payment due on December 1, 2021.

As of December 31, 2014, the combined outstanding loan balance was \$873,619. Total interest paid for the year ended December 31, 2014 was \$39,900. There was no interest capitalized during the years ended December 31, 2014 and 2013.

**CHESTER COUNTY SOCIETY FOR THE
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NOTES TO FINANCIAL STATEMENTS

NOTE 7 COMMERCIAL TERM LOANS (CONTINUED)

Expected future minimum payments of long-term debt are as follows:

Year Ending <u>December 31,</u>		
2015	\$	20,493
2016		21,307
2017		22,263
2018		23,206
2019		24,189
Thereafter		<u>762,161</u>
	\$	<u>873,619</u>

NOTE 8 NET ASSETS

Net assets consist of the following:

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS	<u>\$ 4,961,998</u>	<u>\$ 5,097,859</u>
TEMPORARILY RESTRICTED NET ASSETS		
Beacham Charitable Lead Trusts	353,519	379,213
Veterinary equipment	7,500	7,500
Cruelty award	4,375	4,375
Henry's Cupboard food pantry	6,250	-
Hope's medical expenses	7,375	-
Unconditional support bequest receivables	15,819	37,740
Pennsylvania grant	<u>5,000</u>	<u>5,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>399,838</u>	<u>433,828</u>
PERMANENTLY RESTRICTED NET ASSETS		
Fanny T. Cochran Trust	208,973	207,257
Leonard Hastings Schoff Trust	245,286	241,200
Suzanne L. Williamson Endowment	<u>50,000</u>	<u>50,000</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>504,259</u>	<u>498,457</u>
	<u>\$ 5,866,095</u>	<u>\$ 6,030,144</u>

**CHESTER COUNTY SOCIETY FOR THE
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NOTES TO FINANCIAL STATEMENTS

NOTE 8 NET ASSETS (CONTINUED)

Net assets are released from donor restrictions by passage of time, by incurring expenses that satisfy the restricted purpose, or by occurrence of other events specified by donors. Details on the net assets released from restrictions are as follows:

	<u>2014</u>	<u>2013</u>
Beacham Charitable Lead Trust for operation of shelter	\$ 44,000	\$ 44,000
Dog park	-	25,000
Capital building campaign	-	6,530
Unconditional support bequest receivables	37,740	481,000
Other	<u>-</u>	<u>18,898</u>
	<u>\$ 81,740</u>	<u>\$ 575,428</u>

NOTE 9 SUBSEQUENT EVENT

In July 2015, a federal lawsuit has been filed against the Organization, along with a number of other state and county defendants, for alleged civil rights violations, tortious interference with contractual relations, and defamation. The dollar amount of damages sought in this Complaint is substantial. The Organization has been advised by its insurance carrier that the Organization has insurance to protect it from this claim. The Organization intends to vigorously contest this matter and believes that it has a number of defenses to the Complaint. As this Complaint was recently filed, and no other party has yet entered an appearance in this case, it is premature to ascertain the Organization's likelihood of success regarding this litigation.