

DORCHESTER PAWS
FINANCIAL REPORT
DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Dorchester Paws
Summerville, South Carolina

We have audited the accompanying financial statements of Dorchester Paws which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, 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.

Auditors' 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 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 Dorchester Paws as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hubbard Davis CPAs, LLP

Mount Pleasant, South Carolina
January 10, 2018

**DORCHESTER PAWS
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016**

ASSETS

CURRENT ASSETS

Cash	\$ 323,029
Cash, restricted	26,709
Accounts receivable	7,800
TOTAL CURRENT ASSETS	<u>357,538</u>

PROPERTY AND EQUIPMENT

Property and equipment, net	<u>265,912</u>
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INVESTMENTS

Board restricted endowment	<u>818,676</u>
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TOTAL ASSETS	<u>\$ 1,442,126</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	<u>\$ 16,042</u>
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NET ASSETS

Unrestricted	
Undesignated	580,699
Board restricted endowment	818,676
Total unrestricted net assets	<u>1,399,375</u>
Temporarily restricted net assets	<u>26,709</u>
TOTAL NET ASSETS	<u>1,426,084</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,442,126</u>
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See accompanying notes.

**DORCHESTER PAWS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions	\$ 122,534	\$ -	\$ 122,534
Grants	44,310	-	44,310
Bequests	238,509	-	238,509
Adoption and shelter services	202,938	-	202,938
Government service contract	153,966	-	153,966
Special events, net \$39,011 expense	9,398	-	9,398
Unrealized gain	36,570	-	36,570
Realized gain	5,542	-	5,542
Investment income, net of \$3,762 in investment fees	28,483	-	28,483
Total revenue	<u>842,250</u>	<u>-</u>	<u>842,250</u>
Net assets released from restriction	<u>15,897</u>	<u>(15,897)</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>858,147</u>	<u>(15,897)</u>	<u>842,250</u>
EXPENSES			
Program services	601,610	-	601,610
Supporting services			
Mangement and general	70,279	-	70,279
Fundraising	5,589	-	5,589
TOTAL EXPENSES	<u>677,478</u>	<u>-</u>	<u>677,478</u>
CHANGE IN NET ASSETS	180,669	(15,897)	164,772
NET ASSETS, beginning of year	<u>1,218,706</u>	<u>42,606</u>	<u>1,261,312</u>
NET ASSETS, end of year	<u>\$ 1,399,375</u>	<u>\$ 26,709</u>	<u>\$ 1,426,084</u>

See accompanying notes.

DORCHESTER PAWS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Management & General	Fund- raising	Total
COMPENSATION AND RELATED EXPENSES				
Salaries	\$ 265,722	\$ 45,760	\$ 4,104	\$ 315,586
Payroll taxes	25,858	4,453	399	30,710
Total compensation and related expenses	291,580	50,213	4,503	346,296
OTHER EXPENSES				
Shelter expenses	206,353	-	-	206,353
Public relations	3,189	549	49	3,787
Utilities	35,671	1,538	300	37,509
Telephone	4,413	760	68	5,241
Computer and equipment	2,185	376	34	2,595
Occupancy	4,904	844	76	5,824
Building maintenance	17,111	738	144	17,993
Bank fees	-	3,979	-	3,979
Postage and printing	1,353	233	21	1,607
Insurance	7,501	1,292	115	8,908
Office expense	5,746	989	89	6,824
Professional fees	-	7,669	-	7,669
Miscellaneous	676	116	10	802
Education expenses	200	-	-	200
Travel	689	119	10	818
TOTAL EXPENSES BEFORE DEPRECIATION	581,571	69,415	5,419	656,405
Depreciation	20,039	864	170	21,073
TOTAL FUNCTIONAL EXPENSES	\$ 601,610	\$ 70,279	\$ 5,589	\$ 677,478

See accompanying notes.

**DORCHESTER PAWS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016**

Operating activities	
Change in net assets	\$ 164,772
Adjustments to reconcile change in net assets to net cash	
Depreciation	21,073
Unrealized (gain)	(36,570)
In-kind donation of equipment	(10,000)
Decrease in accounts receivable	8,310
Decrease in accounts payable	(92)
Net cash provided by operating activities	<u>147,493</u>
Investing activities	
Purchases of equipment	(17,698)
Sale of investments	68,880
Net cash used in investing activities	<u>51,182</u>
Net increase in unrestricted cash and cash equivalents	198,675
Cash and cash equivalents as of beginning of year	<u>151,063</u>
Cash and cash equivalents as of end of year	<u><u>\$ 349,738</u></u>
Cash and cash equivalents	
Unrestricted	\$ 323,029
Restricted	26,709
	<u><u>\$ 349,738</u></u>

See accompanying notes.

DORCHESTER PAWS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Nature of Organization

Dorchester Paws (the Shelter) is a 501(c)3 non-profit organization dedicated to improving the lives of animals in Dorchester County, South Carolina. The Shelter is the only open-admission shelter in Dorchester County, serving towns including Rosinville, Ridgeville, Oakbrook, St. George, Summerville and Grover. Partnering with Dorchester Code Enforcement, the Shelter takes in every lost, abandoned and abused animal and provides them with food, shelter and medical attention until they find their forever home.

The Shelter was established in 1972 as the Society for Prevention of Cruelty to Animals, Dorchester County by Frances R. Willis with land donated by Kapstone. Dr. Brunson Westbury and Frances R. Willis worked to get the road built and land cleared to open the facility. Over the years, the shelter has been expanded, but continues to reach and exceed capacity because the community served is growing and the pet overpopulation crisis is not abating. In October 2017, the Shelter was renamed to Dorchester Paws.

Basis of Accounting

The financial statements of the Shelter 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 Shelter 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 Shelter is required to present Statement of Cash Flows.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Shelter 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.

Accounts Receivables

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

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

DORCHESTER PAWS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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.

Board Designated Endowment Funds

The Shelter's endowment funds consist of unrestricted funds functioning as endowment through designation by the Board. The earnings of the Shelter's endowment fund support the mission of the Shelter. Net assets associated with endowment funds, including unrestricted funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Return Objectives and Risk Parameters

The Shelter 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.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Shelter 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 Shelter targets a diversified asset allocation that places an emphasis on equity-based investments and mutual funds to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Shelter has a policy of appropriating the distribution for each year not to exceed 4.75% of its selected endowment fund's trailing average market value over the three years preceding the year in which the distribution is planned. In establishing this policy, the Shelter considered the long-term expected return on its endowment. Accordingly, over the long term, the Shelter expects the current spending policy to allow its endowment to grow at an average of 5 to 8 percent annually.

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 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 3 to 39 years.

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.

DORCHESTER PAWS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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 Shelter'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 Shelter 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 Shelter reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. It is The Shelter'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 Shelter providing those services.

Advertising

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expense total \$2,168 for the year ending December 31, 2016.

Income Tax Status

The Shelter 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 Shelter qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an association other than a private organization under Section 509(a)(2).

The Shelter currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. The Shelter 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.

**DORCHESTER PAWS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from government agencies or private donors, based on the terms of the related agreements. Management periodically reviews the status of all receivables 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 receivables that are uncollectible therefore there have been no charges to bad debts for the year ending December 31, 2016. Accounts receivable as of December 31, 2016 are \$7,800. All amounts are considered current and collectible within one year.

NOTE 3 - INVESTMENTS

Investments held by the Shelter 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:

	<u>FMV</u>	<u>Cost</u>
Money market	\$ 37,741	\$ 37,741
Mutual funds	749,934	599,819
Fixed income securities	<u>31,001</u>	<u>24,679</u>
	<u>\$ 818,676</u>	<u>\$ 662,239</u>

The following schedule summarizes the investment return in the Statement of Activities for the year ending December 31, 2016:

Beginning Investment Balance	\$ 762,449
Interest/dividends	32,008
Management fees	(3,762)
Unrealized gains	36,570
Withdrawals/distributions	<u>(8,589)</u>
Ending Investment Balance	<u>\$ 818,676</u>

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DORCHESTER PAWS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - 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 Shelter own assumptions in determining the fair value of investments)

For the year ended December 31, 2016, 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:

- *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).
- *Mutual funds:* The Shelter 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).

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 37,741	\$ -	\$ -	\$ 37,741
Mutual funds	749,934	-	-	749,934
Fixed income securities	<u>31,001</u>	<u>-</u>	<u>-</u>	<u>31,001</u>
	<u>\$ 818,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 818,676</u>

The inputs and methodology used for valuing the Shelter 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 year ending December 31, 2016, there were no significant transfers in or out of levels 1, 2, or 3.

DORCHESTER PAWS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 - PROPERTY AND EQUIPMENT

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

Depreciable assets:		
Furniture and equipment	\$	193,525
Building improvements		78,058
Building		<u>417,957</u>
		689,540
Less: accumulated depreciation		<u>(423,628)</u>
Total property and equipment	\$	<u>265,912</u>

Depreciation expense for the year ending December 31, 2016 is \$21,073.

NOTE 6 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Shelter to concentrations of credit risk consist of cash in banks; investments managed by brokerage firms and promise to give. The Shelter 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, the Shelter had uninsured cash of \$107,513.

NOTE 7 - OTHER CONCENTRATION RISK

The Shelter has a vendor contract with the Dorchester County for the humane disposition of animals in Dorchester County. In 2016, the Shelter received 3,333 animals from animal control agencies and Dorchester County citizens, which represents 100% of the animal intake for the organization. The Shelter received \$153,966 from Dorchester County under the contract. The concentration of animal intake from Dorchester County related to one vendor contract is a risk to the organization.

The Shelter must use reserves, donations and grants to fund the shortfall annually which creates a risk to the organization.

NOTE 8 - RELATED PARTIES TRANSACTIONS

The Shelter received contributions from members of its Board of Directors for the year ending December 31, 2016. The President of the Board's fiancé was employed by the Shelter for approximately three months in 2016 to provide one time management skills training and was paid \$1,682. Two of the Board of Directors are husband and wife.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include those net assets whose use by the Shelter has been restricted by the donor for specific purposes or time limitations. At December 31, 2016 temporarily restricted net assets consisted of assets limited to flood recovery efforts and revitalization. As of January 1, 2016, the temporarily restricted net assets for the flood recovery efforts and revitalization was \$42,606, there were no contributions during the year and distributions equal \$15,897. The resulting balance at December 31, 2016 was \$26,709.

DORCHESTER PAWS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 - BOARD RESTRICTED ENDOWMENT

In 2003, the Board approved the formation of an endowment fund to be known as the Dorchester Society for Prevention of Cruelty to Animals Endowment Fund per the terms of an Endowment Agreement. The Endowment Board must vote and approve the disbursement of any funds. Generally these funds are meant for projects to improve or repair the Shelter. As required by 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 assets composition by type of fund as of December 31, 2016.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Board-designated funds	\$ 818,676	\$ -	\$ 818,676
Total endowment	<u>\$ 818,676</u>	<u>\$ -</u>	<u>\$ 818,676</u>
Reconciling items to net assets:			
Cash reserve - restricted	\$ -	\$ 26,709	\$ 26,709
Unrestricted net assets	<u>580,699</u>	<u>-</u>	<u>580,699</u>
Total net assets	<u>\$ 1,399,375</u>	<u>\$ 26,709</u>	<u>\$ 1,426,084</u>

Change in endowment net assets during 2016:

Endowment net assets, beginning of year	\$ 762,449
Interest/dividends	32,008
Management fees	(3,762)
Realized and unrealized gains	36,570
Withdrawals/distributions	<u>(8,589)</u>
Change in endowment net assets	<u>56,227</u>
Total investments	<u>\$ 818,676</u>

NOTE 11 - 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.