

**Geauga County Humane Society, Inc.
dba Rescue Village
and
The Rescue Village Foundation**

**Consolidated Financial Statements
December 31, 2011 and 2010**

Independent Auditor's Report

Boards of Directors
Geauga County Humane Society, Inc. dba Rescue Village and
The Rescue Village Foundation

We have audited the accompanying consolidated statements of financial position of Geauga County Humane Society, Inc. dba Rescue Village and The Rescue Village Foundation (collectively referred to as the "Organization") as of December 31, 2011 and 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 19 through 20 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ciuni & Panichi, Inc.

Cleveland, Ohio
July 24, 2012

**Geauga County Humane Society, Inc. dba Rescue Village
and
The Rescue Village Foundation**

Consolidated Statements of Financial Position

December 31, 2011 and 2010

	<u>Assets</u>	
	2011	2010
Current assets:		
Cash and cash equivalents	\$ 553,427	\$ 761,377
Pledges receivable	23,810	17,337
Prepaid expenses	12,987	6,136
Total current assets	590,224	784,850
Property and equipment:		
Land	225,882	225,882
Land improvements	119,520	108,420
Building	1,861,970	1,861,970
Furniture and fixtures	36,148	32,059
Equipment	106,285	88,480
Vehicles	35,330	35,330
	2,385,135	2,352,141
Less: accumulated depreciation	(745,197)	(668,368)
Property and equipment, net	1,639,938	1,683,773
Other assets:		
Endowment fund	3,852,892	3,902,422
Other investments	74,912	132,690
Deposits	255	255
Total other assets	3,928,059	4,035,367
	\$ 6,158,221	\$ 6,503,990
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 12,341	\$ 15,715
Accrued expenses	48,416	109,220
Total current liabilities	60,757	124,935
Net assets:		
Unrestricted:		
Undesignated	2,233,281	2,450,133
Board-designated endowment	3,852,892	3,902,422
Total unrestricted	6,086,173	6,352,555
Temporarily restricted	11,291	26,500
Total net assets	6,097,464	6,379,055
	\$ 6,158,221	\$ 6,503,990

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

**Geauga County Humane Society, Inc. dba Rescue Village
and
The Rescue Village Foundation**

Consolidated Statement of Activities

For the year ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Public support:			
Donations and bequests	\$ 674,557	\$ 10,000	\$ 684,557
Grant income	45,208	-	45,208
Special events	230,541	-	230,541
Program service fees	183,120	-	183,120
Other	<u>450</u>	<u>-</u>	<u>450</u>
Total public support	1,133,876	10,000	1,143,876
Revenue:			
Membership dues	<u>82,578</u>	<u>-</u>	<u>82,578</u>
Total public support and revenue	1,216,454	10,000	1,226,454
Investment and dividend income	74,127	-	74,127
Realized gain on investments	3,625	-	3,625
Unrealized loss on investments	<u>(127,348)</u>	<u>-</u>	<u>(127,348)</u>
	<u>1,166,858</u>	<u>10,000</u>	<u>1,176,858</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>25,209</u>	<u>(25,209)</u>	<u>-</u>
Expenses:			
Program services	1,137,603	-	1,137,603
Supporting services:			
Management and general	68,254	-	68,254
Fundraising	<u>252,592</u>	<u>-</u>	<u>252,592</u>
Total expenses	<u>1,458,449</u>	<u>-</u>	<u>1,458,449</u>
Change in net assets	(266,382)	(15,209)	(281,591)
Net assets at beginning of year	<u>6,352,555</u>	<u>26,500</u>	<u>6,379,055</u>
Net assets at end of year	\$ <u>6,086,173</u>	\$ <u>11,291</u>	\$ <u>6,097,464</u>

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**Geauga County Humane Society, Inc. dba Rescue Village
and
The Rescue Village Foundation**

Consolidated Statement of Activities

For the year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Public support:			
Donations and bequests	\$ 1,013,539	\$ 26,500	\$ 1,040,039
Grant income	29,275	-	29,275
Special events	237,390	-	237,390
Program service fees	184,777	-	184,777
Other	<u>229</u>	<u>-</u>	<u>229</u>
Total public support	1,465,210	26,500	1,491,710
Revenue:			
Membership dues	<u>79,404</u>	<u>-</u>	<u>79,404</u>
Total public support and revenue	1,544,614	26,500	1,571,114
Investment and dividend income	62,675	-	62,675
Realized gain on investments	1,837	-	1,837
Unrealized gain on investments	<u>293,718</u>	<u>-</u>	<u>293,718</u>
	1,902,844	26,500	1,929,344
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
Expenses:			
Program services	1,121,694	-	1,121,694
Supporting services:			
Management and general	118,961	-	118,961
Fundraising	<u>223,275</u>	<u>-</u>	<u>223,275</u>
Total expenses	1,463,930	-	1,463,930
Change in net assets	448,914	16,500	465,414
Net assets at beginning of year	<u>5,903,641</u>	<u>10,000</u>	<u>5,913,641</u>
Net assets at end of year	\$ <u>6,352,555</u>	\$ <u>26,500</u>	\$ <u>6,379,055</u>

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

**Geauga County Humane Society, Inc. dba Rescue Village
and
The Rescue Village Foundation**

Consolidated Statement of Functional Expenses

For the year ended December 31, 2011

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Salaries and wages	\$ 602,934	\$ 40,979	\$ 77,040	\$ 720,953
Payroll taxes	57,830	3,188	11,633	72,651
Employee benefits	<u>55,113</u>	<u>2,364</u>	<u>5,643</u>	<u>63,120</u>
Total salaries and related expenses	715,877	46,531	94,316	856,724
Mail house	-	-	80,746	80,746
Postage	7,255	18	1,174	8,447
Rent and utilities	38,063	-	692	38,755
Repairs and maintenance	25,393	550	398	26,341
Telephone	8,291	-	-	8,291
Licenses and permits	7,235	-	505	7,740
Equipment rental and leases	11,117	-	9,070	20,187
Clothing	12,928	-	-	12,928
Vehicle	6,886	-	323	7,209
Printing	1,672	1,200	1,522	4,394
Insurance	10,731	635	222	11,588
Dues and subscriptions	1,223	250	1,553	3,026
Depreciation	76,829	-	-	76,829
Advertising	2,732	299	733	3,764
Professional fees	14,485	15,039	3,177	32,701
Office supplies	21,182	2,793	4,288	28,263
Training and education	7,949	103	469	8,521
Veterinary	17,332	-	-	17,332
Drugs and medical supplies	48,479	-	-	48,479
Shelter supplies and expense	33,640	148	-	33,788
Photographs	716	-	-	716
Rubbish removal	14,478	-	-	14,478
Spay and neuter expense	36,426	-	-	36,426
Travel	9,495	381	3,524	13,400
Special events	<u>7,189</u>	<u>307</u>	<u>49,880</u>	<u>57,376</u>
Total expenses	\$ <u>1,137,603</u>	\$ <u>68,254</u>	\$ <u>252,592</u>	\$ <u>1,458,449</u>

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

**Geauga County Humane Society, Inc. dba Rescue Village
and
The Rescue Village Foundation**

Consolidated Statement of Functional Expenses

For the year ended December 31, 2010

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Salaries and wages	\$ 597,802	\$ 104,222	\$ 59,157	\$ 761,181
Payroll taxes	51,755	6,269	4,550	62,574
Employee benefits	<u>45,640</u>	<u>3,393</u>	<u>3,540</u>	<u>52,573</u>
Total salaries and related expenses	695,197	113,884	67,247	876,328
Mail house	-	-	75,970	75,970
Postage	8,514	6	7,576	16,096
Rent and utilities	37,413	-	1,200	38,613
Repairs and maintenance	30,040	-	-	30,040
Telephone	7,251	-	-	7,251
Licenses and permits	6,083	-	-	6,083
Equipment rental and leases	13,239	139	1,984	15,362
Clothing	11,560	-	-	11,560
Vehicle	7,735	-	70	7,805
Printing	4,115	-	5,395	9,510
Insurance	11,460	-	-	11,460
Dues and subscriptions	3,433	615	265	4,313
Depreciation	75,814	-	-	75,814
Advertising	3,302	308	634	4,244
Professional fees	42,272	1,242	7,327	50,841
Office supplies	21,707	2,522	2,897	27,126
Training and education	4,225	-	-	4,225
Veterinary	12,911	-	-	12,911
Drugs and medical supplies	41,227	-	-	41,227
Shelter supplies and expense	32,941	54	-	32,995
Photographs	529	-	-	529
Rubbish removal	13,390	-	-	13,390
Spay and neuter expense	30,603	-	-	30,603
Travel	3,443	191	800	4,434
Special events	<u>3,290</u>	<u>-</u>	<u>51,910</u>	<u>55,200</u>
Total expenses	\$ <u>1,121,694</u>	\$ <u>118,961</u>	\$ <u>223,275</u>	\$ <u>1,463,930</u>

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

**Geauga County Humane Society, Inc. dba Rescue Village
and
The Rescue Village Foundation**

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ (281,591)	\$ 465,414
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	76,829	75,814
Realized gain on investments	(3,625)	(1,837)
Unrealized loss (gain) on investments	127,348	(293,718)
(Increase) decrease in operating assets:		
Pledges receivable	(6,473)	(6,312)
Prepaid expenses	(6,851)	5,836
Increase (decrease) in operating liabilities:		
Accounts payable	(3,374)	10,141
Accrued expenses	(60,804)	27,307
Net cash (used) provided by operating activities	<u>(158,541)</u>	<u>282,645</u>
Cash flows from investing activities:		
Purchase of property and equipment	(32,994)	(4,351)
Proceeds from sale of investments	62,869	222,961
Purchases of and income retained in investments	<u>(79,284)</u>	<u>(110,405)</u>
Net cash (used) provided by investing activities	<u>(49,409)</u>	<u>108,205</u>
Net (decrease) increase in cash and cash equivalents	(207,950)	390,850
Cash and cash equivalents, beginning of year	<u>761,377</u>	<u>370,527</u>
Cash and cash equivalents, end of year	\$ <u>553,427</u>	\$ <u>761,377</u>

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

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 1: Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Geauga County Humane Society, Inc. dba Rescue Village (the “Society”) and its affiliate The Rescue Village Foundation (the “Foundation”) (collectively referred to as the “Organization”). All significant intra-entity accounts and transactions have been eliminated.

Nature of Activities

The Society is located in Russell Township, Geauga County, Ohio. The Society’s purpose is to shelter and find homes for sick, injured, abused, and abandoned domestic animals; to foster compassion for all living things through education; and to prevent cruelty by enforcing animal protection laws.

The Society’s primary sources of revenue are from donations and bequests, program service fees (adoptions and memorials), and fundraising events.

In 2011, the Board of Directors of the Society elected to form a separate legal foundation to hold the assets of the board-designated endowment. Effective July 1, 2011, the Foundation was formed for this purpose. As of December 31, 2011, the assets of the endowment had not yet been transferred to the Foundation. As such, the assets of the endowment were still held by and reflected on the records of the Society at December 31, 2011.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. These include both undesignated and board-designated net assets.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If donor-imposed restrictions are met in the same year as they are imposed, the net assets are reported as unrestricted.

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that are to be maintained by the Organization in perpetuity. At December 31, 2011 and 2010, the Organization had no permanently restricted net assets.

The Organization follows authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) which established the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative accounting principles generally accepted in the United States of America.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated to the appropriate programs and supporting services benefited based upon management’s best estimate of the resources used in providing each service.

Use of Estimates

The preparation of consolidated 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Organization maintains its cash accounts at various financial institutions. The balances, at times, may exceed federally insured limits.

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 1: Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Unconditional pledges receivable are recognized as revenues in the period the promise is received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. The pledges are stated at their fair market value. Pledges that are to be received over a period of years, if applicable, are discounted to fair value based on their respective payment terms and an appropriate discount rate as of the date the pledge is received.

Investments

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. Realized and unrealized gains and losses are included in investment income in the period in which they occur.

Property and Equipment

Depreciation of property and equipment is provided by use of declining balance and straight-line methods over the estimated useful lives of the assets, which range from 5 to 40 years.

Assets having a useful life in excess of one year and with costs of \$1,000 or greater are capitalized. Major additions and improvements are capitalized while replacements, maintenance, and repairs which do not improve or extend the lives of the respective assets are expensed. Purchased property and equipment are stated at cost.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for 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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2011 and 2010 totaled \$3,764 and \$4,244, respectively.

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 1: Summary of Significant Accounting Policies (continued)

Contributed Services

The Organization recognizes contributions of services received when those services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation.

Income Taxes

Geauga County Humane Society, Inc. dba Rescue Village and the Rescue Village Foundation are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes pursuant to Section 501(a) of the Code. No provision for federal income taxes has been reported in the consolidated financial statements.

The Organization accounts for income taxes in accordance with the "Income Taxes" topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Organization classifies interest and penalties related to income tax matters as income tax expense in the accompanying consolidated financial statements. As of December 31, 2011, the Organization has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

The Society and the Foundation file their respective Federal Form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Ohio. The Organization believes it is no longer subject to examination by the Internal Revenue Service for fiscal years before 2008.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and temporary investments, investment securities, and pledges receivable.

The Organization has significant investments in equity and debt securities and is, therefore, subject to concentrations of credit risk. Investments are managed by investment advisors who are overseen by the Investment Committee of the Board of Directors. Though the market value of investments is subject to fluctuations on a year-to-year basis, the Directors believe that the investment policy is prudent for the long-term welfare of the Organization.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 24, 2012, the date the consolidated financial statements were available to be issued.

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 2: Investments

Investments consisted of the following at December 31:

	2011		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash and cash equivalents	\$ 662,960	\$ 662,960	\$ -
Certificates of deposit	86,952	88,078	1,126
Mutual funds (equities)	1,795,995	2,428,082	632,087
Mutual funds (fixed income)	615,438	637,547	22,109
Corporate securities	89,044	86,128	(2,916)
Governmental securities	10,000	10,000	-
Asset backed securities	31,743	12,552	(19,191)
Accrued interest	2,457	2,457	-
	<u>\$ 3,294,589</u>	<u>\$ 3,927,804</u>	<u>\$ 633,215</u>
	2010		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash and cash equivalents	\$ 1,277,983	\$ 1,277,983	\$ -
Certificates of deposit	169,760	173,852	4,092
Mutual funds (equities)	1,432,291	2,188,987	756,696
Mutual funds (fixed income)	241,348	256,944	15,596
Corporate securities	109,049	109,988	939
Governmental securities	10,000	10,000	-
Asset backed securities	31,743	14,442	(17,301)
Accrued interest	2,916	2,916	-
	<u>\$ 3,275,090</u>	<u>\$ 4,035,112</u>	<u>\$ 760,022</u>

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 3: Fair Value Measurements

In accordance with the “Fair Value Measurements” topic of the FASB ASC, the Organization uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information, which has been internally developed.

Financial assets (liabilities) consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/2011</u>
Cash and cash equivalents	\$ 662,960	\$ -	\$ -	\$ 662,960
Certificates of deposit	-	88,078	-	88,078
Mutual funds (equities)	2,428,082	-	-	2,428,082
Mutual funds (fixed income)	637,547	-	-	637,547
Corporate securities	-	86,128	-	86,128
Governmental securities	-	10,000	-	10,000
Asset backed securities	-	12,552	-	12,552
Accrued interest	-	2,457	-	2,457
	<u>\$ 3,728,589</u>	<u>\$ 199,215</u>	<u>\$ -</u>	<u>\$ 3,927,804</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/2010</u>
Cash and cash equivalents	\$ 1,277,983	\$ -	\$ -	\$ 1,277,983
Certificates of deposit	-	173,852	-	173,852
Mutual funds (equities)	2,188,987	-	-	2,188,987
Mutual funds (fixed income)	256,944	-	-	256,944
Corporate securities	-	109,988	-	109,988
Governmental securities	-	10,000	-	10,000
Asset backed securities	-	14,442	-	14,442
Accrued interest	-	2,916	-	2,916
	<u>\$ 3,723,914</u>	<u>\$ 311,198</u>	<u>\$ -</u>	<u>\$ 4,035,112</u>

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 4: Temporarily Restricted Net Assets

At December 31, 2011 and 2010, temporarily restricted net assets were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Technology	\$ -	\$ 11,000
Program restricted (In Kids We Trust)	1,291	3,000
Program restricted (Womensafe)	-	2,500
Operations – time restricted	<u>10,000</u>	<u>10,000</u>
	<u>\$ 11,291</u>	<u>\$ 26,500</u>

Net assets released from restriction during the years ended December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Technology	\$ 11,000	\$ -
Program restricted (In Kids We Trust)	1,709	-
Program restricted (Womensafe)	2,500	-
Operations – time restricted	<u>10,000</u>	<u>10,000</u>
	<u>\$ 25,209</u>	<u>\$ 10,000</u>

Note 5: Net Asset Classification of Endowment Funds

The Organization's endowment consists of collectively invested funds established to fund Board directed needs and programs. 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.

The Organization has interpreted the State Prudent Management of Institutional Fund Act (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 Organization classifies as permanently restricted net assets, where applicable, (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

**Geauga County Humane Society, Inc. dba Rescue Village
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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 5: Net Asset Classification of Endowment Funds (continued)

In accordance with SPMIFA, the Organization 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 purpose of the Organization and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The investment policies of the Organization.

As required by the “Not-for-Profit Entities” section of the ASC, the Organization had the following endowment-related activities during the years ended December 31, 2011 and 2010:

	December 31, 2011		
	Donor-Restricted Endowment Funds	Board-Designated Quasi-Endowment Funds	Total
Investment return:			
Investment income	\$ -	\$ 72,724	\$ 72,724
Net depreciation	-	(123,723)	(123,723)
Total investment return	-	(50,999)	(50,999)
Contributions to perpetual endowment	-	-	-
Amounts appropriated for expenditure	-	(186,155)	(186,155)
Transfer from assets to board-designated quasi-endowment funds	-	187,624	187,624
Total change in endowment funds	\$ -	\$ (49,530)	\$ (49,530)

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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 5: Net Asset Classification of Endowment Funds (continued)

	December 31, 2010		
	Donor-Restricted Endowment Funds	Board-Designated Quasi-Endowment Funds	Total
Investment return:			
Investment income	\$ -	\$ 60,699	\$ 60,699
Net appreciation	-	<u>295,555</u>	<u>295,555</u>
Total investment return	-	356,254	356,254
Contributions to perpetual endowment	-	-	-
Amounts appropriated for expenditure	-	(182,431)	(182,431)
Transfer from assets to board-designated quasi-endowment funds	<u>-</u>	<u>227,099</u>	<u>227,099</u>
Total change in endowment funds	\$ <u>-</u>	\$ <u>400,922</u>	\$ <u>400,922</u>

Endowment Net Asset Composition by Type of Fund
as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -	\$ -
Board-designated quasi-endowment funds	<u>3,852,892</u>	<u>-</u>	<u>-</u>	<u>3,852,892</u>
Total funds	\$ <u>3,852,892</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,852,892</u>

Endowment Net Asset Composition by Type of Fund
as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -	\$ -
Board-designated quasi-endowment funds	<u>3,902,422</u>	<u>-</u>	<u>-</u>	<u>3,902,422</u>
Total funds	\$ <u>3,902,422</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,902,422</u>

Since there were no permanently restricted net assets, the portion of perpetual endowment funds required to be retained by explicit donor stipulation or by SPMIFA was \$-0- at December 31, 2011 and 2010.

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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 5: Net Asset Classification of Endowment Funds (continued)

Return Objectives and Risk Parameters

The Organization has adopted an endowment investment policy for the Endowment Fund that attempts to provide support and funding for long-term operations. Assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, investments of all Organization assets are directed by the Investment Committee of the Board of Directors. The Committee may, at its option, use professional managers. The standard for the Investment Committee with regard to the Endowment Fund assets shall be the preservation of corpus while prudently maximizing real growth. The Organization will conduct a quarterly monitoring of the portfolio. Investment performance will be measured against comparative market indices including Standard & Poor 500, Midcap 400, Smallcap 600, MSCI All World ex US, and the Barclays Capital Aggregate Bond Index.

Strategies Employed for Achieving Objectives

The Organization's assets will be managed to meet the following objectives:

- Long-term capital appreciation
- Moderate risk commensurate with a balanced portfolio
- Liquidity adequate to cover annual payouts
- Broad diversification
- Low fee investment vehicles

Spending Policy

The Organization may receive an annual payment from the Endowment Fund equal to 5% of the average of total invested endowment assets. This average will be calculated using quarter end balances for the eight prior quarters.

It is not currently intended that the Endowment Fund will invest in or hold individual equity securities, real property, or other "hard" assets. Should these types of assets be received through a bequest or other donation, it will be the responsibility of the Investment Committee or designated Organization board member to arrange for liquidation of the asset as quickly as is reasonable.

Note 6: Leases

The Organization leases certain office equipment under long-term leases. Rent expense totaled \$5,752 and \$4,826 during the years ended December 31, 2011 and 2010, respectively.

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Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 6: Leases (continued)

Future minimum rental commitments for the Organization's non-cancelable operating leases are as follows:

2012	\$	4,332
2013		1,194

Note 7: Conditional Promises to Give

As of December 31, 2011, the Organization had outstanding conditional promises to give related to a performance grant. These conditional promises are not recognized in the consolidated financial statements until the conditions upon which the promises depend have been substantially met. If future conditions are met per the provisions of the grant agreement, the Organization will receive and recognize the following amounts into revenue in the following years:

2012	\$	10,000
2013		10,000

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Schedule I – Consolidating Statement of Financial Position

December 31, 2011

	Rescue Village	The Rescue Village Foundation	Eliminations	Consolidated
	<u>Assets</u>			
Current assets:				
Cash and cash equivalents	\$ 553,427	\$ -	\$ -	\$ 553,427
Pledges receivable	23,810	-	-	23,810
Other receivables	4,610	-	(4,610)	-
Prepaid expenses	12,987	-	-	12,987
Total current assets	594,834	-	(4,610)	590,224
Property and equipment:				
Land	225,882	-	-	225,882
Land improvements	119,520	-	-	119,520
Building	1,861,970	-	-	1,861,970
Furniture and fixtures	36,148	-	-	36,148
Equipment	106,285	-	-	106,285
Vehicles	35,330	-	-	35,330
	2,385,135	-	-	2,385,135
Less: accumulated depreciation	(745,197)	-	-	(745,197)
Property and equipment, net	1,639,938	-	-	1,639,938
Other assets:				
Endowment fund	3,852,892	-	-	3,852,892
Other investments	74,912	-	-	74,912
Deposits	255	-	-	255
Total other assets	3,928,059	-	-	3,928,059
	<u>\$ 6,162,831</u>	<u>\$ -</u>	<u>\$ (4,610)</u>	<u>\$ 6,158,221</u>
	<u>Liabilities and Net Assets (Deficit)</u>			
Current liabilities:				
Accounts payable	\$ 12,341	\$ 4,610	\$ (4,610)	\$ 12,341
Accrued expenses	48,416	-	-	48,416
Total current liabilities	60,757	4,610	(4,610)	60,757
Net assets (deficit):				
Unrestricted:				
Undesignated	2,237,891	(4,610)	-	2,233,281
Board-designated endowment	3,852,892	-	-	3,852,892
Total unrestricted	6,090,783	(4,610)	-	6,086,173
Temporarily restricted	11,291	-	-	11,291
Total net assets (deficit)	6,102,074	(4,610)	-	6,097,464
	<u>\$ 6,162,831</u>	<u>\$ -</u>	<u>\$ (4,610)</u>	<u>\$ 6,158,221</u>

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Schedule II – Consolidating Statement of Activities

For the year ended December 31, 2011

	<u>Rescue Village</u>	<u>The Rescue Village Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Public support and revenue:				
Public support:				
Donations and bequests	\$ 684,557	\$ -	\$ -	\$ 684,557
Grant income	45,208	-	-	45,208
Special events	230,541	-	-	230,541
Program service fees	183,120	-	-	183,120
Other	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
Total public support	1,143,876	-	-	1,143,876
Revenue:				
Membership dues	<u>82,578</u>	<u>-</u>	<u>-</u>	<u>82,578</u>
Total public support and revenue	1,226,454	-	-	1,226,454
Investment and dividend income	74,127	-	-	74,127
Realized gain on investments	3,625	-	-	3,625
Unrealized loss on investments	<u>(127,348)</u>	<u>-</u>	<u>-</u>	<u>(127,348)</u>
	<u>1,176,858</u>	<u>-</u>	<u>-</u>	<u>1,176,858</u>
Expenses:				
Program services	1,137,603	-	-	1,137,603
Supporting services:				
Management and general	63,644	4,610	-	68,254
Fundraising	<u>252,592</u>	<u>-</u>	<u>-</u>	<u>252,592</u>
Total expenses	<u>1,453,839</u>	<u>4,610</u>	<u>-</u>	<u>1,458,449</u>
Change in net assets (deficit)	(276,981)	(4,610)	-	(281,591)
Net assets at beginning of year	<u>6,379,055</u>	<u>-</u>	<u>-</u>	<u>6,379,055</u>
Net assets (deficit) at end of year	\$ <u>6,102,074</u>	\$ <u>(4,610)</u>	\$ <u>-</u>	\$ <u>6,097,464</u>