

PAWS CHICAGO

FINANCIAL REPORT

DECEMBER 31, 2009 AND 2008

# BANSLEY AND KIENER, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

O'HARE PLAZA

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
PAWS Chicago  
Chicago, Illinois

We have audited the accompanying statements of financial position of PAWS Chicago (a nonprofit corporation) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of PAWS Chicago as of December 31, 2009 and 2008, 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.

*Bansley and Kiener, L.L.P.*  
Certified Public Accountants

June 10, 2010

PAWS CHICAGOSTATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2009 AND 2008

<u>A S S E T S</u>	<u>2009</u>	<u>2008</u>
Cash	\$ 3,359,046	\$ 3,262,643
Investments (Note 2)	3,904,614	1,279,687
Unconditional promises to give, net (Note 3)	1,958,577	2,739,941
Accounts receivable	104,210	15,000
Inventories (Note 4)	35,429	37,341
Prepaid expenses	36,482	35,209
Property and equipment, net (Note 5)	<u>9,175,311</u>	<u>9,149,160</u>
Total assets	<u>\$ 18,573,669</u>	<u>\$ 16,518,981</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 268,224	\$ 291,546
Deferred Revenue	40,445	-
Accrued payroll and taxes	<u>3,482</u>	<u>20,918</u>
Total liabilities	<u>312,151</u>	<u>312,464</u>
Net assets (Note 7)		
Unrestricted	10,936,993	10,474,790
Temporarily restricted	7,241,299	5,679,401
Permanently restricted	<u>83,226</u>	<u>52,326</u>
Total net assets	<u>18,261,518</u>	<u>16,206,517</u>
Total liabilities and net assets	<u>\$ 18,573,669</u>	<u>\$ 16,518,981</u>

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



PAWS CHICAGO

STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,236,455	\$ 1,404,941
Cash received from contributors	6,062,327	6,231,844
Interest income received	129,054	99,738
Cash paid to employees and suppliers	<u>(5,218,597)</u>	<u>(4,621,455)</u>
Net cash provided by operating activities	<u>2,209,239</u>	<u>3,115,068</u>
Cash flows from investing activities:		
Purchases of investment securities	(1,922,669)	(1,578,249)
Construction in progress refund	-	55,464
Purchases of property and equipment	<u>(220,167)</u>	<u>(43,672)</u>
Net cash used in investing activities	<u>(2,142,836)</u>	<u>(1,566,457)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	<u>30,000</u>	<u>30,000</u>
Increase in cash	96,403	1,578,611
Cash at beginning of year	<u>3,262,643</u>	<u>1,684,032</u>
Cash at end of year	<u>\$ 3,359,046</u>	<u>\$ 3,262,643</u>
Reconciliation of change in net assets to cash provided by operating activities:		
Change in net assets	<u>\$ 2,055,001</u>	<u>\$ 877,845</u>
Adjustments:		
Unrealized (gain) loss on investments	(702,258)	298,562
Depreciation	200,518	195,253
Provision for doubtful pledges	24,229	49,514
Contributions restricted for long-term purposes	(30,000)	(30,000)
(Increase) decrease in:		
Contributed investment	-	106,614
Contributed property and equipment	(6,502)	-
Unconditional promises to give	757,135	1,377,988
Accounts receivable	(89,210)	265,800
Inventories	1,912	(6,337)
Prepaid expenses	(1,273)	(14,920)
Increase (decrease) in:		
Accounts payable	(23,322)	30,778
Accrued payroll and taxes	(17,436)	(34,780)
Deferred revenue	40,445	-
Agency account	-	(1,249)
Total adjustments	<u>154,238</u>	<u>2,237,223</u>
Net cash provided by operating activities	<u>\$ 2,209,239</u>	<u>\$ 3,115,068</u>

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

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 1 – Nature of Activities and Summary of Significant Accounting Policies

*Nature of Activities*

PAWS Chicago, a nonprofit corporation, was organized on January 29, 1998. PAWS Chicago seeks to end the killing of homeless pets by reducing unwanted litters, increasing adoptions and promoting responsible pet care. PAWS Chicago operates a shelter and facilitates foster care for homeless cats and dogs until they can be placed in loving homes. PAWS Chicago is reducing the city's tragic pet overpopulation problem by providing free and low-cost spay/neuter surgeries at the Lurie Spay/Neuter Clinic located in an area where the highest number of strays originate and where the largest number of residents are living at or below poverty level. PAWS Chicago's Humane Education and Community Outreach Program works in tandem with Chicago Alternative Policing Strategies (CAPS), local churches, schools and community groups to promote the humane treatment of animals and promote responsible pet care in communities reporting the highest incidence of strays, dog bites and crimes against/involving animals. PAWS Chicago has constructed a new Adoption & Humane Center to enable it to help even more homeless animals. PAWS Chicago hosts annual fundraising events to support its programs, increase awareness and recruit volunteers, and is supported entirely by private contributions.

*Basis of Accounting*

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

*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.

Material estimates that are particularly susceptible to significant change relate to the valuation of contributed services received by the Organization.

*Recognition of Donor Restrictions*

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

*Promises to Give*

Unconditional promises to give are recognized as assets and revenue in the period the promise is received. Promises to give are recorded at net realizable value if expected to be collected in the current year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

*Inventories*

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

*Property, Equipment, and Depreciation*

Property and equipment are recorded at cost, or if donated, at estimated fair value at date of acquisition. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

Depreciation of property and equipment is computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	70
Leasehold improvements	5-20
Equipment	5-10

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. When assets are sold, retired, or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income.

*Donated Services*

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. In addition, many volunteers also perform a variety of tasks throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

*Income Taxes*

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

*Evaluation of Subsequent Events*

Management has evaluated subsequent events through June 10, 2010, the date the financial statements were available to be issued.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

*New Accounting Policies*

## Implementation of FSP FAS 117-1

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Illinois enacted UPMIFA effective June 30, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Organization has adopted FSP FAS 117-1 for the year ended December 31, 2009. The Organization has determined that the majority of the its permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Organization's interpretation of UPMIFA, the Organization has reviewed all of its endowment funds and no reclassifications were made from unrestricted net assets to temporarily restricted net assets as of December 31, 2009.

## Note 2 – Investments

Investments at December 31, 2009 and 2008 are carried at fair value as determined by quoted market prices (Level 1 inputs) and are composed of the following:

	<u>December 31, 2009</u>			
	<u>Cost or Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Mutual funds	\$2,582,133	\$343,376	-	\$2,925,509
Stocks	895,980	73,454	(13,134)	956,300
Money market	<u>22,805</u>	<u>-</u>	<u>-</u>	<u>22,805</u>
	<u>\$3,500,918</u>	<u>\$416,830</u>	<u>\$(13,134)</u>	<u>\$3,904,614</u>
	<u>December 31, 2008</u>			
	<u>Cost or Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Mutual funds	\$1,578,201	\$4,175	\$(302,737)	\$1,279,639
Money market	<u>48</u>	<u>-</u>	<u>-</u>	<u>48</u>
	<u>\$1,578,249</u>	<u>\$4,175</u>	<u>\$(302,737)</u>	<u>\$1,279,687</u>



PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 3 – Unconditional Promises to Give

Unconditional promises to give have been received in support of the spay/neuter clinic, the adoption center, and the endowment fund. Unconditional promises to give include the following:

	<u>2009</u>	<u>2008</u>
Promises to give beginning	\$ 3,141,011	\$ 4,717,316
Amount pledged during the year	370,000	716,509
Amount collected during the year	<u>(1,238,191)</u>	<u>(2,292,814)</u>
Promises to give ending	2,272,820	3,141,011
Less:		
Discounts to present value	(233,800)	(344,856)
Allowance for doubtful promises	<u>(80,443)</u>	<u>(56,214)</u>
Net promises to give	<u>\$ 1,958,577</u>	<u>\$ 2,739,941</u>

Unconditional promises to give at December 31, 2009 and 2008 are as follows.

Promises to give expected to be collected in:

	<u>2009</u>	<u>2008</u>
Less than one year	\$1,173,655	\$1,309,781
One to five years	<u>1,099,165</u>	<u>1,831,230</u>
	<u>\$2,272,820</u>	<u>\$3,141,011</u>

## Note 4 – Inventories

Inventories at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Merchandise	\$ 25,901	\$ 23,718
Clinic Inventory	<u>9,528</u>	<u>13,623</u>
	<u>\$ 35,429</u>	<u>\$ 37,341</u>

## Note 5 – Property, Equipment, and Depreciation

Property and equipment at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Land	\$2,125,569	\$2,125,569
Building	6,276,832	6,177,999
Leasehold improvements	1,071,582	986,806
Equipment	<u>396,264</u>	<u>353,204</u>
	9,870,247	9,643,578
Less accumulated depreciation	<u>694,936</u>	<u>494,418</u>
	<u>\$9,175,311</u>	<u>\$9,149,160</u>

Depreciation expense for the years ended December 31, 2009 and 2008 was \$200,518 and \$195,253, respectively.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 6 – Line of Credit

The Organization had a line of credit from a financial institution. The line of credit was unsecured and allowed the Organization to borrow up to \$500,000. The debt required monthly interest payments on amounts borrowed at the rate of 5.0%. The line of credit matured March 2009 and was not renewed. There were no amounts outstanding on this line of credit at December 31, 2008.

## Note 7 – Net Assets

*Board-designated endowment*

As of December 31, 2009, the Board of Directors had designated \$858,781 of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Organization has not appropriated for distribution any of its board-designated endowment.

Composition of and changes in endowment net assets for the year ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Board-designated endowment net assets, beginning balance	\$389,174	\$128,838
Contributions	489,446	257,772
Interest income	<u>161</u>	<u>2,564</u>
Ending designated balance	<u>\$878,781</u>	<u>\$389,174</u>

*Donor-designated endowment*

As of December 31, 2009, the Organization's endowment consists of one donor-restricted endowment fund. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds 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 (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by SPMIFA. 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 various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Institute, and (7) the Institute's investment policies.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 7 – Net Assets (Continued)

*Investment Return Objectives, Risk Parameters and Strategies*

Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period of time. The endowment assets are invested in a manner to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding level, and long-term liability structure of the investment portfolio.

To achieve long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment Funds:				
Donor-restricted	\$ -	\$7,241,299	\$83,226	\$7,324,525
Board-designated	<u>878,781</u>	<u>-</u>	<u>-</u>	<u>878,781</u>
	<u>\$878,781</u>	<u>\$7,241,299</u>	<u>\$83,226</u>	<u>\$8,203,306</u>

Changes in endowment net assets as of December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment Funds:				
Beginning of year	\$389,174	\$5,679,401	\$52,326	\$6,120,901
Contributions	489,446	942,183	30,000	1,461,629
Investment income	161	127,707	900	128,768
Net appreciation	-	702,258	-	702,258
Appropriated for expenditure	<u>-</u>	<u>(210,250)</u>	<u>-</u>	<u>(210,250)</u>
End of year	<u>\$878,781</u>	<u>\$7,241,299</u>	<u>\$83,226</u>	<u>\$8,203,306</u>

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 7 – Net Assets (Continued)

*Temporarily Restricted Net Assets*

Following is a summary of the activity in temporarily restricted net assets for the years ended December 31, 2009 and 2008:

	<u>2009</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Assets Released</u>	<u>Ending Balance</u>
Spay/neuter clinic	\$ 83,793	\$ 1,572	\$ 13,620	\$ 71,745
Adoption center	<u>5,595,608</u>	<u>1,770,576</u>	<u>196,630</u>	<u>7,169,554</u>
	<u>\$5,679,401</u>	<u>\$1,772,148</u>	<u>\$210,250</u>	<u>\$7,241,299</u>
	<u>2008</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Assets Released</u>	<u>Ending Balance</u>
Spay/neuter clinic	\$ 97,811	\$ 23,362	\$ 37,380	\$ 83,793
Adoption center	<u>4,975,441</u>	<u>827,544</u>	<u>207,377</u>	<u>5,595,608</u>
	<u>\$5,073,252</u>	<u>\$850,906</u>	<u>\$244,757</u>	<u>\$5,679,401</u>

Temporarily restricted net assets at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Cash	\$1,395,434	\$1,677,099
Investments	3,904,614	1,279,687
Unconditional promises to give	<u>1,941,251</u>	<u>2,722,615</u>
	<u>\$7,241,299</u>	<u>\$5,679,401</u>

*Permanently Restricted Net Assets*

The following is a summary of permanently restricted net assets for the years ended December 31:

	<u>2009</u>	<u>2008</u>
General Endowment	<u>\$83,226</u>	<u>\$52,326</u>

Permanently restricted assets consist of the following:

	<u>2009</u>	<u>2008</u>
Cash	\$65,900	\$35,000
Unconditional promises to give	<u>17,326</u>	<u>17,326</u>
	<u>\$83,226</u>	<u>\$52,326</u>

When donors amend or clarify intent for applicable gifts and contributions reported in a previous fiscal year, revisions are separately reflected as donor designated changes within the statement of activities.

Earnings on permanently restricted net assets may be used to support the general operations of the Organization.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 8 – Related Party Transactions

*Contributions*

The Organization received \$36,700 and \$30,000 in unrestricted contributions from corporations controlled by members of the board of directors during the years ended December 31, 2009 and 2008, respectively.

*Contributed Services*

The Organization utilizes space provided by various corporations that are controlled by certain members of the board of directors. The space is utilized for the spay/neuter clinic, and office space. Space and utility costs are valued at approximately \$35,000 and \$30,000 for 2009 and 2008, respectively. The space is occupied under leases which expire in September 2020. Also, the Organization received marketing, accounting, architectural and administrative services provided by employees of the related corporations. These services were valued at approximately \$161,500 and \$140,000 for 2009 and 2008, respectively.

## Note 9 – Employee Benefit Plan

The Organization adopted a 401(k) savings plan covering substantially all employees that have completed the service requirement. For each year, the Board of Directors determines the amount of the discretionary contribution to be made to the Plan. No contributions were made for 2009 and 2008.

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

Note 10 – Fair Value Measurements

Information related to the Organization's assets measured at fair value on a recurring basis at December 31, 2009 and 2008 is as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2009				
Investment securities	\$3,904,614	\$3,904,614	\$ -	\$ -
Unconditional promises to give	<u>1,958,577</u>	<u>-</u>	<u>-</u>	<u>1,958,577</u>
Total	<u>\$5,863,191</u>	<u>\$3,904,614</u>	<u>\$ -</u>	<u>\$1,958,577</u>
December 31, 2008				
Investment securities	\$1,279,687	\$1,279,687	\$ -	\$ -
Unconditional promises to give	<u>2,739,941</u>	<u>-</u>	<u>-</u>	<u>2,739,941</u>
Total	<u>\$4,019,628</u>	<u>\$1,279,687</u>	<u>\$ -</u>	<u>\$2,739,941</u>

Fair values for investments are determined by quoted market prices. Fair Value of unconditional promises to give are determined by calculating the present values of estimated future pledge payments expected to be received, over the expected term of the agreements, using a discount rate of 6%.

Assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	<u>2009</u>	<u>2008</u>
Unconditional promises to give:		
Beginning of year	\$2,739,941	\$ 4,167,443
New pledges	370,000	716,509
Pledge payments received	(1,223,612)	(2,292,814)
Provision for bad debts	(38,243)	(49,514)
Change in present value discount	<u>110,491</u>	<u>198,317</u>
End of year	<u>\$1,958,577</u>	<u>\$ 2,739,941</u>

Note 12 – Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 13 – Concentrations

The Organization maintains cash balances with three banks. Accounts at financial institutions may at times exceed the amount insured by the Federal Deposit Insurance Corporation.