

PAWS CHICAGO  
FINANCIAL REPORT  
DECEMBER 31, 2014 AND 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
PAWS Chicago  
Chicago, Illinois

We have audited the accompanying financial statements of PAWS Chicago, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years 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 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 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 the 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 PAWS Chicago as of December 31, 2014 and 2013, 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.

*Bansley and Kiener, L.L.P.*

Certified Public Accountants

October 26, 2015

PAWS CHICAGOSTATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013

<u>A S S E T S</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 3,758,300	\$ 2,846,286
Investments, at fair value	19,037,906	15,389,389
Unconditional promises to give, net	791,563	780,748
Accounts receivable	324,182	219,625
Inventories	108,373	74,503
Prepaid expenses	132,043	113,219
Accrued interest and dividends	4,276	-
Property and equipment, net	12,291,379	11,715,664
Total assets	<u>\$ 36,448,022</u>	<u>\$ 31,139,434</u>
 <u>LIABILITIES AND NET ASSETS</u>  		
Accounts payable	\$ 379,316	\$ 145,877
Accrued payroll and taxes	143,222	97,285
Deferred revenue	64,145	10,000
Total liabilities	<u>586,683</u>	<u>253,162</u>
Net assets		
Unrestricted	25,752,403	20,770,473
Temporarily restricted	8,202,460	9,925,799
Permanently restricted	1,906,476	190,000
Total net assets	<u>35,861,339</u>	<u>30,886,272</u>
Total liabilities and net assets	<u>\$ 36,448,022</u>	<u>\$ 31,139,434</u>

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

STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014						2013					
	UNRESTRICTED			Temporarily Restricted	Permanently Restricted	Total	UNRESTRICTED			Temporarily Restricted	Permanently Restricted	Total
	Operations	Board Designated	Total				Operations	Board Designated	Total			
<b>REVENUE</b>												
Program service fees:												
Adoption center - Lincoln Park	\$ 936,455	\$ -	\$ 936,455	\$ -	\$ -	\$ 936,455	\$ 905,130	\$ -	\$ 905,130	\$ -	\$ -	\$ 905,130
Adoption center - North Shore	37,325	-	37,325	-	-	37,325	-	-	-	-	-	-
Admission center	6,325	-	6,325	-	-	6,325	14,380	-	14,380	-	-	14,380
Spay/neuter clinic	963,369	-	963,369	-	-	963,369	917,023	-	917,023	-	-	917,023
GUS mobile	11,014	-	11,014	-	-	11,014	15,409	-	15,409	-	-	15,409
Training center	57,990	-	57,990	-	-	57,990	-	-	-	-	-	-
Contributions	4,523,160	1,244,550	5,767,710	1,393,996	1,716,476	8,878,182	4,185,111	837,336	5,022,447	925,364	35,000	5,982,811
Contributions - in kind	605,378	-	605,378	-	-	605,378	492,404	-	492,404	-	-	492,404
Investment income	32	736,666	736,698	-	-	736,698	232	450,077	450,309	-	-	450,309
Net appreciation of investments	-	637,794	637,794	-	-	637,794	-	2,289,039	2,289,039	-	-	2,289,039
Special events	3,273,490	-	3,273,490	-	-	3,273,490	2,541,481	-	2,541,481	-	-	2,541,481
Other income	184,030	-	184,030	-	-	184,030	174,468	-	174,468	-	-	174,468
Net assets released from restrictions	3,117,335	-	3,117,335	(3,117,335)	-	-	233,466	-	233,466	(233,466)	-	-
<b>Total revenue</b>	<b>13,715,903</b>	<b>2,619,010</b>	<b>16,334,913</b>	<b>(1,723,339)</b>	<b>1,716,476</b>	<b>16,328,050</b>	<b>9,479,104</b>	<b>3,576,452</b>	<b>13,055,556</b>	<b>691,898</b>	<b>35,000</b>	<b>13,782,454</b>
<b>EXPENSES</b>												
Program services:												
Rescue & recovery center	3,042,394	-	3,042,394	-	-	3,042,394	2,357,179	-	2,357,179	-	-	2,357,179
Spay/neuter clinic	1,791,161	-	1,791,161	-	-	1,791,161	1,685,762	-	1,685,762	-	-	1,685,762
Adoption center - Lincoln Park	2,071,605	-	2,071,605	-	-	2,071,605	2,131,572	-	2,131,572	-	-	2,131,572
Adoption center - North Shore	229,992	-	229,992	-	-	229,992	16,258	-	16,258	-	-	16,258
Humane education	935,725	-	935,725	-	-	935,725	701,238	-	701,238	-	-	701,238
GUS mobile	44,765	-	44,765	-	-	44,765	54,426	-	54,426	-	-	54,426
Training center	221,891	-	221,891	-	-	221,891	-	-	-	-	-	-
Volunteer program	505,681	-	505,681	-	-	505,681	-	-	-	-	-	-
Community development	80,914	-	80,914	-	-	80,914	-	-	-	-	-	-
	<b>8,924,128</b>	<b>-</b>	<b>8,924,128</b>	<b>-</b>	<b>-</b>	<b>8,924,128</b>	<b>6,946,435</b>	<b>-</b>	<b>6,946,435</b>	<b>-</b>	<b>-</b>	<b>6,946,435</b>
Supporting services:												
Management and general	410,894	-	410,894	-	-	410,894	334,914	-	334,914	-	-	334,914
Special events	1,636,204	-	1,636,204	-	-	1,636,204	1,484,001	-	1,484,001	-	-	1,484,001
Fundraising	381,757	-	381,757	-	-	381,757	466,001	-	466,001	-	-	466,001
	<b>2,428,855</b>	<b>-</b>	<b>2,428,855</b>	<b>-</b>	<b>-</b>	<b>2,428,855</b>	<b>2,284,916</b>	<b>-</b>	<b>2,284,916</b>	<b>-</b>	<b>-</b>	<b>2,284,916</b>
<b>Total expenses</b>	<b>11,352,983</b>	<b>-</b>	<b>11,352,983</b>	<b>-</b>	<b>-</b>	<b>11,352,983</b>	<b>9,231,351</b>	<b>-</b>	<b>9,231,351</b>	<b>-</b>	<b>-</b>	<b>9,231,351</b>
<b>Change in net assets</b>	<b>2,362,920</b>	<b>2,619,010</b>	<b>4,981,930</b>	<b>(1,723,339)</b>	<b>1,716,476</b>	<b>4,975,067</b>	<b>247,753</b>	<b>3,576,452</b>	<b>3,824,205</b>	<b>691,898</b>	<b>35,000</b>	<b>4,551,103</b>
Net assets at beginning of year	9,910,651	10,859,822	20,770,473	9,925,799	190,000	30,886,272	9,662,898	7,283,370	16,946,268	9,233,901	155,000	26,335,169
<b>Net assets at end of year</b>	<b>\$ 12,273,571</b>	<b>\$ 13,478,832</b>	<b>\$ 25,752,403</b>	<b>\$ 8,202,460</b>	<b>\$ 1,906,476</b>	<b>\$ 35,861,339</b>	<b>\$ 9,910,651</b>	<b>\$ 10,859,822</b>	<b>\$ 20,770,473</b>	<b>\$ 9,925,799</b>	<b>\$ 190,000</b>	<b>\$ 30,886,272</b>

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

PAWS CHICAGOSTATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,175,677	\$ 1,873,763
Cash received from contributors	8,995,983	9,088,364
Investment income received	732,422	450,309
Cash paid to employees and suppliers	(9,825,205)	(8,342,365)
Net cash provided by operating activities	<u>2,078,877</u>	<u>3,070,071</u>
Cash flows from investing activities:		
Purchases of investment securities	(4,018,702)	(3,193,588)
Sale of investment securities	2,286,312	1,743,474
Purchases of property and equipment	(999,901)	(133,269)
Net cash used in investing activities	<u>(2,732,291)</u>	<u>(1,583,383)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	<u>1,565,428</u>	<u>35,000</u>
Increase in cash	912,014	1,521,688
Cash at beginning of year	<u>2,846,286</u>	<u>1,324,598</u>
Cash at end of year	<u>\$ 3,758,300</u>	<u>\$ 2,846,286</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	<u>\$ 4,975,067</u>	<u>\$ 4,551,103</u>
Adjustments:		
Net appreciation in investments	(637,794)	(2,289,039)
Depreciation	424,186	357,400
Provision for doubtful pledges	272,000	145,371
Contributions restricted for long-term purposes	(1,565,428)	(35,000)
Contributed investments received	(1,278,333)	(102,063)
(Increase) decrease in:		
Unconditional promises to give	(282,815)	701,135
Accounts receivable	(104,557)	(161,147)
Inventories	(33,870)	(20,153)
Prepaid expenses	(18,824)	(13,509)
Accrued interest and dividends	(4,276)	
Increase (decrease) in:		
Accounts payable	233,439	(95,932)
Accrued property taxes	-	(3,388)
Accrued payroll and taxes	45,937	26,793
Deferred revenue	54,145	8,500
Total adjustments	<u>(2,896,190)</u>	<u>(1,481,032)</u>
Net cash provided by operating activities	<u>\$ 2,078,877</u>	<u>\$ 3,070,071</u>
Supplemental disclosure of non-cash operating and financing activities:		
In-kind contributions	<u>\$ 605,378</u>	<u>\$ 492,404</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's mission is:

- to build No Kill communities—starting with a No Kill Chicago—that respect and value the life of every cat and dog
- to end the overpopulation of homeless animals through solutions, practices and education;
- to transform animal welfare by setting higher standards in the way animals are treated and developing a sustainable solutions-based model.

PAWS Chicago's No Kill model is working. Since its founding, the number of animals euthanized in the city of Chicago has been reduced by 77%.

PAWS Chicago operates two adoption centers, a medical center, and a training center and manages a robust network of foster homes to provide treatment, medical care and enrichment for homeless cats and dogs until they can be adopted into loving homes. Since its start, PAWS Chicago has found homes for more than 37,000 animals.

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 and on the GusMobile Spay/Neuter Van, helping families who could not otherwise afford the costly surgery. PAWS Chicago's efforts are targeted in communities where the highest number of strays originate and where the largest number of residents are living at or below poverty level. Since its founding, PAWS Chicago has spayed or neutered more than 175,000 dogs and cats.

PAWS Chicago's Humane Education and Community Outreach Programs work in tandem with local churches, schools, community groups and the media to raise awareness about pet overpopulation and the resulting euthanasia. PAWS Chicago's volunteer program is instrumental to operations, providing the equivalent of 50 full time employees in 2014. PAWS Chicago hosts annual fundraising events to support its programs, increase awareness and engagement from the community in its No Kill mission, and recruit volunteers. PAWS Chicago receives no government funding and is reliant entirely upon the generosity of the community through private contributions.

*Basis of Accounting*

The financial statements of PAWS Chicago have been prepared on the accrual basis of accounting.

*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 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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

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

*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.

*Accounts Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances at year-end. Based on management's assessment of the credit history with debtors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will not be significant.

*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, which is measured at the present value of their future cash flows, if expected to be collected in more than one year.

The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution income. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

*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>
Buildings and improvements	20-70
Leasehold improvements	5-20
Equipment	5-10

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

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

*Property, Equipment, and Depreciation (Continued)*

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 the change in net assets.

*Deferred Revenue*

Revenue collected for program service fees are recognized when the services are performed. Revenue collected for program service fees of the succeeding year are classified as deferred revenue.

*Donated Services*

Donated services are recognized as contributions 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 were not met.

*Advertising*

The Organization recognizes advertising revenue when collected and expenses the costs of advertising as incurred. Advertising revenue was \$56,950 and \$47,388 for the years ended December 31, 2014 and 2013, respectively. Advertising expense totaled \$17,827 and 10,303 for the years ended December 31, 2014 and 2013, respectively.

*Income Taxes*

The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code except for income derived from unrelated business activities, as defined under the Internal Revenue Code. There was no provision for tax required for 2014 or 2013. The Organization's federal Forms 990 and 990-T for 2014, 2013, and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they are filed. In addition, the Organization's state Forms AG990-IL and IL990-T are subject to examination by the state tax authority for similar years.

*Evaluation of Subsequent Events*

Management has evaluated subsequent events through October 26, 2015, the date the financial statements were available to be issued.

*Reclassifications*

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassifications had no impact on total net assets.



PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 2 – Investments

Investments at December 31 are reported at fair value as determined by quoted market prices and are composed of the following:

	<u>2014</u>	<u>2013</u>
Money market	\$ 1,572,941	\$ 1,414,680
Mutual funds		
International equity	2,222,734	2,506,528
Global equity	1,503,496	1,465,788
Fixed income	3,462,430	647,873
Balanced	843,430	792,495
Large Cap Growth	1,028,488	923,928
Large Cap Blend	613,148	602,175
Stocks		
Energy	1,093,107	1,677,760
Materials	70,900	-
Financial	1,278,538	879,440
Consumer staples	221,270	58,320
Consumer discretionary	403,585	265,427
Healthcare	299,962	273,420
Utilities	239,969	348,250
Information technology	3,000,395	1,617,595
Telecommunications	532,919	491,400
Industrial	650,566	834,710
Diversified emerging markets	-	493,680
Large blend	-	95,920
Other	<u>28</u>	<u>-</u>
	<u>\$19,037,906</u>	<u>\$15,389,389</u>

During the years ended December 31, 2014 and 2013, the Organization's investments (including investments bought, sold, as well as held during the period) appreciated in fair value by \$637,794 and \$2,289,039, respectively.

## 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. Future cash flows from long-term pledges are discounted at a risk-adjusted discount rate of 6%. Unconditional promises to give include the following:

	<u>2014</u>	<u>2013</u>
Promises to give beginning of year	\$ 877,285	\$1,790,802
Amount pledged during the year	845,000	30,000
Amount collected during the year	(515,060)	(826,146)
Pledges written off	<u>(255,096)</u>	<u>(117,371)</u>
Promises to give end of year	952,129	877,285
Less:		
Discounts to present value	(115,662)	(68,537)
Allowance for doubtful promises	<u>(44,904)</u>	<u>(28,000)</u>
Net promises to give	<u>\$ 791,563</u>	<u>\$ 780,748</u>

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 3 – Unconditional Promises to Give (Continued)

Unconditional promises to give at December 31, 2014 and 2013 are as follows.

Promises to give expected to be collected in:

	<u>2014</u>	<u>2013</u>
Less than one year	\$400,066	\$602,716
One to five years	552,063	274,569
More than five years	<u>-</u>	<u>-</u>
	<u>\$952,129</u>	<u>\$877,285</u>

## Note 4 – Inventories

Inventories at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Merchandise	\$ 47,423	\$30,582
Clinic inventory	<u>60,950</u>	<u>43,921</u>
	<u>\$108,373</u>	<u>\$74,503</u>

## Note 5 – Property, Equipment, and Depreciation

Property and equipment at December 31, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 3,514,619	\$ 3,514,619
Buildings and improvements	9,082,575	8,808,913
Leasehold improvements	42,625	5,646
Equipment	<u>1,783,504</u>	<u>1,225,342</u>
	14,423,323	13,554,520
Less accumulated depreciation	<u>2,263,042</u>	<u>1,838,856</u>
	12,160,281	11,715,664
Construction in progress	<u>131,098</u>	<u>-</u>
	<u>\$12,291,379</u>	<u>\$11,715,664</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$424,186 and \$357,400, respectively. The Organization has begun certain building improvements and software enhancements. The total cost of the projects is expected to be approximately \$177,500.

## Note 6 – Net Assets

*Board-designated Endowment*

The Board of Directors has designated a portion of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since this 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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 6 – Net Assets (Continued)

*Board-designated Endowment (Continued)*

Composition of and changes in board-designated endowment net assets for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Beginning designated balance	\$10,859,822	\$ 7,283,370
Contributions	1,244,550	837,336
Investment income	736,666	450,077
Net appreciation on investment of temporarily restricted funds	<u>637,794</u>	<u>2,289,039</u>
Ending designated balance	<u>\$13,478,832</u>	<u>\$10,859,822</u>

*Donor-restricted Endowment*

The Organization's permanently restricted net assets consist of four donor-restricted endowment funds. 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 Organization 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 Organization, and (7) the Organization's investment policies.

*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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 6 – Net Assets (Continued)

*Endowment Net Assets*

Endowment net asset composition by type of fund as of December 31, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
<i>December 31, 2014</i>			
Endowment Funds:			
Donor-restricted	\$ -	\$1,906,476	\$ 1,906,476
Board-designated	<u>13,478,832</u>	<u>-</u>	<u>13,478,832</u>
	<u>\$13,478,832</u>	<u>\$1,906,476</u>	<u>\$15,385,308</u>
<i>December 31, 2013</i>			
Endowment Funds:			
Donor-restricted	\$ -	\$ 190,000	\$ 190,000
Board-designated	<u>10,859,822</u>	<u>-</u>	<u>10,859,822</u>
	<u>\$10,859,822</u>	<u>\$ 190,000</u>	<u>\$11,049,822</u>

Changes in endowment net assets as of December 31, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
<i>December 31, 2014</i>			
Endowment Funds:			
Beginning of year	\$10,859,822	\$ 190,000	\$11,049,822
Contributions	1,244,550	1,716,476	2,961,026
Investment income	736,666	-	736,666
Net appreciation of investments	637,794	-	637,794
Appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$13,478,832</u>	<u>\$1,906,476</u>	<u>\$15,385,308</u>
<i>December 31, 2013</i>			
Endowment Funds:			
Beginning of year	\$ 7,283,370	\$ 155,000	\$ 7,438,370
Contributions	837,336	35,000	872,336
Investment income	450,077	-	450,077
Net appreciation of investments	2,289,039	-	2,289,039
Appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$10,859,822</u>	<u>\$ 190,000</u>	<u>\$11,049,822</u>

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## Note 6 – 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, 2014 and 2013:

	2014			
	Beginning Balance	Additions	Assets Released	Ending Balance
Adoption program	\$8,868,470	\$ 864,563	\$2,360,864	\$7,372,169
GUS Mobile	386,142	504	44,765	341,881
Sick and injured / shelter medicine	76,632	242,911	72,742	246,801
Spay/neuter clinic	73,000	-	73,000	-
Strategic initiatives growth fund	521,555	286,018	565,964	241,609
	<u>\$9,925,799</u>	<u>\$1,393,996</u>	<u>\$3,117,335</u>	<u>\$8,202,460</u>
	2013			
	Beginning Balance	Additions	Assets Released	Ending Balance
Adoption program	\$8,321,994	\$ 697,868	\$ 151,392	\$8,868,470
GUS Mobile	433,210	7,358	54,426	386,142
Sick and injured / shelter medicine	64,142	40,138	27,648	76,632
Spay/neuter clinic	43,000	30,000	-	73,000
Strategic initiatives growth fund	371,555	150,000	-	521,555
	<u>\$9,233,901</u>	<u>\$ 925,364</u>	<u>\$ 233,466</u>	<u>\$9,925,799</u>

Temporarily restricted net assets at December 31, 2014 and 2013 consist of the following:

	2014	2013
Cash	\$1,823,898	\$ 765,584
Investments	5,738,047	8,379,467
Unconditional promises to give	640,515	780,748
	<u>\$8,202,460</u>	<u>\$9,925,799</u>

*Permanently Restricted Net Assets*

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

	2014	2013
General endowment	\$ 251,502	\$190,000
Free spay/neuter program	1,003,926	-
Medical assistance for dogs with treatable illness	500,000	-
Medical treatment of animals under 6 months old	151,048	-
	<u>\$1,906,476</u>	<u>\$190,000</u>

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 6 – Net Assets (Continued)

*Permanently Restricted Net Assets (Continued)*

Permanently restricted assets consist of the following:

	<u>2014</u>	<u>2013</u>
Cash	\$ -	\$ -
Investments	1,755,428	190,000
Unconditional promises to give	<u>151,048</u>	<u>-</u>
	<u>\$1,906,476</u>	<u>\$190,000</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.

## Note 7 – Operating Leases

*Lease Revenue*

The Organization leased a portion of the 26<sup>th</sup> Street building to a local bank. The lease term ran on a calendar year basis and was renewable annually through 2021. The lease was not renewed for 2015. Rental income for each of the years ended December 31, 2014 and 2013 was \$127,080.

*Lease Expense*

In December 2014, the Organization entered into a lease with a retail merchant in Highland Park, Illinois whereby the Organization would occupy a small space within their retail store to operate a satellite adoption facility. The lease term expires December 3, 2018. The annual base rent is \$1 per year payable in advance. The lease is subject to various restrictions related to operating hours and animal care. It is not practical to estimate the fair value of the donated premises.

## Note 8 – Related Party Transactions

During 2013, the Organization paid \$69,808 to related corporations for marketing, accounting and administrative services. There were no such payments in 2014.

## 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 2014 and 2013.

PAWS CHICAGONOTES 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, 2014 and 2013 is as follows:

	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>December 31, 2014</i>				
Investment securities	\$19,037,906	\$19,037,906	\$ -	\$ -
Unconditional promises to give	<u>791,563</u>	<u>-</u>	<u>-</u>	<u>791,563</u>
Total	<u>\$19,829,469</u>	<u>\$19,037,906</u>	<u>\$ -</u>	<u>\$791,563</u>
<i>December 31, 2013</i>				
Investment securities	\$15,389,389	\$15,389,389	\$ -	\$ -
Unconditional promises to give	<u>780,748</u>	<u>-</u>	<u>-</u>	<u>780,748</u>
Total	<u>\$16,170,137</u>	<u>\$15,389,389</u>	<u>\$ -</u>	<u>\$780,748</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 risk-adjusted discount rate of 6% at December 31, 2014 and 2013.

Mutual funds above determine fair value using a calculated net asset value per share, or its equivalent. As of December 31, 2014 and 2013, the fair value of the mutual funds was \$9,673,726 and \$6,938,787 respectively, and there were no unfunded commitments related to these investments. These investments can be redeemed daily with no redemption notice required. This category of investments primarily includes investments in stocks, bonds, and short-term investments.

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

	2014	2013
Unconditional promises to give:		
Beginning of year	\$ 780,748	\$1,627,254
New pledges	845,000	30,000
Pledge payments received	(515,060)	(826,146)
Provision for bad debts	(272,000)	(145,371)
Change in present value discount	<u>(47,125)</u>	<u>95,011</u>
End of year	<u>\$ 791,563</u>	<u>\$ 780,748</u>

## Note 11 – 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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

## Note 12 – Concentrations

*Cash*

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

*Contribution Revenue*

For the year ended December 31, 2014, contributions from one major contributor accounted for 12% of the total contributions to the Organization.

## Note 13 – Prior Period Adjustment

The Organization had been recording the investment income derived from the investment of temporarily restricted funds as an increase of temporarily restricted net assets. In 2014, the Organization determined that such amounts should be recorded as an increase of board designated net assets. Components of net assets at December 31, 2012 have been restated to reclassify \$2,838,507 of investment income and net appreciation of investments through 2012. For the year ended December 31, 2013, investment income totaling \$2,739,116 was reclassified from temporarily restricted net assets to board designated net assets with no effect on the change in total net assets for the year.