PAWS CHICAGO

FINANCIAL REPORT

DECEMBER 31, 2015

BK BANSLEY AND KIENER, L.L.P.
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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, 2015 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As discussed in Note 11 to the financial statements, certain errors in the prior year financial statements have been discovered by management in the current year. The errors relate to certain contributions previously held in temporarily restricted net assets; the risk adjusted discount rate used for long-term promises to give; and the depreciable lives of property and equipment. Accordingly, the beginning net assets as of December 31, 2014 have been restated for changes in amounts reported for unconditional promises to give, net property and equipment, and temporarily restricted net assets. Our opinion is not modified with respect to this matter.

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

July 25, 2016

MEMBERS: AMERICAN INSTITUTE OF CPA'S • ILLINOIS CPA SOCIETY
AN INDEPENDENT MEMBER OF THE BDO ALLIANCE USA

PAWS CHICAGO

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

ASSETS

Cash	$ 3,488,381
Investments, at fair value	21,772,168
Unconditional promises to give, net	2,698,288
Accounts receivable	132,112
Inventories	142,768
Prepaid expenses	157,957
Accrued interest and dividends	21,513
Property and equipment, net	12,430,012
Total assets	$ 40,843,199

LIABILITIES AND NET ASSETS

Accounts payable	$ 403,354
Accrued expenses	317,696
Deferred revenue	60,506
Total liabilities	781,556
Net assets	
Unrestricted	33,103,495
Temporarily restricted	3,791,852
Permanently restricted	3,166,296
Total net assets	40,061,643
Total liabilities and net assets	$ 40,843,199

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

PAWS CHICAGO

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	UNRESTRICTED					
	Operations	Board Designated	Total	Temporarily Restricted	Permanently Restricted	Total
REVENUE						
Program service fees:						
Adoption centers	$ 980,068	$ -	$ 980,068	$ -	$ -	$ 980,068
Admission centers	6,504	-	6,504	-	-	6,504
Spay/neuter clinic	951,030	-	951,030	-	-	951,030
Training center	136,517	-	136,517	-	-	136,517
Contributions	5,081,791	1,465,588	6,547,379	3,458,206	1,235,868	11,241,453
Contributions - in kind	632,627	-	632,627	-	-	632,627
Investment income	411,458	-	411,458	-	-	411,458
Net depreciation of investments	(722,615)	-	(722,615)	-	-	(722,615)
Special events	3,657,665	-	3,657,665	-	-	3,657,665
Other income	79,761	-	79,761	-	-	79,761
Net assets released from restrictions and designations	2,177,103	(600,000)	1,577,103	(1,577,103)	-	-
Total revenue	13,391,909	865,588	14,257,497	1,881,103	1,235,868	17,374,468
EXPENSES						
Program services:						
Admissions and recovery	3,559,906	-	3,559,906	-	-	3,559,906
Spay/neuter clinic	2,080,597	-	2,080,597	-	-	2,080,597
Adoption centers	2,200,320	-	2,200,320	-	-	2,200,320
Outreach communications	1,111,680	-	1,111,680	-	-	1,111,680
Training - external	247,447	-	247,447	-	-	247,447
Training - internal	133,752	-	133,752	-	-	133,752
Volunteer program	497,502	-	497,502	-	-	497,502
Community development	615,789	-	615,789	-	-	615,789
	10,446,993	-	10,446,993	-	-	10,446,993
Supporting services:						
Special events	1,074,593	-	1,074,593	-	-	1,074,593
Management and general	761,440	-	761,440	-	-	761,440
Fundraising	526,584	-	526,584	-	-	526,584
	2,362,617	-	2,362,617	-	-	2,362,617
Total expenses	12,809,610	-	12,809,610	-	-	12,809,610
Change in net assets	582,299	865,588	1,447,887	1,881,103	1,235,868	4,564,858
Net assets at beginning of year, as restated, see Note 11	18,176,776	13,478,832	31,655,608	1,910,749	1,930,428	35,496,785
Net assets at end of year	$ 18,759,075	$ 14,344,420	$ 33,103,495	$ 3,791,852	$ 3,166,296	$ 40,061,643

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

PAWS CHICAGO

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services									Supporting Services				
	Admissions and Recovery	Spay/Neuter Clinic	Adoption Centers	Outreach Communications	Training External	Training Internal	Volunteer Program	Community Development	Total Program Services	Special Events	Management And General	Fund Raising	Total Supporting Services	Total
EXPENSES														
Compensation	$ 1,706,652	$ 1,156,559	$ 1,042,686	$ 341,177	$ 131,865	$ 110,643	$ 228,081	$ 410,851	$ 5,128,514	$ -	$ 227,974	$ 130,858	$ 358,832	$ 5,487,346
Benefits and taxes	256,750	161,358	203,478	61,371	22,225	3,984	33,201	45,653	788,020	-	53,923	18,015	71,938	859,958
Animal care supplies	200,744	196	147,077	-	-	-	-	-	348,017	3	108	-	111	348,128
Medical supplies	844,707	369,250	305	261	-	-	-	-	1,214,523	-	-	-	-	1,214,523
Merchandise cost	-	-	77	-	-	-	-	-	77	11,129	425	-	11,554	11,631
Professional fees	53,601	31,950	58,585	46,280	6,692	11,689	5,647	7,903	222,347	8,000	257,498	92,196	357,694	580,041
Office supplies	67,231	28,647	84,285	15,069	7,785	5,646	4,722	3,380	216,765	56,352	108,894	6,783	172,029	388,794
Advertising	7	10,138	5,407	1,897	-	-	505	14	17,968	-	-	30	30	17,998
Event catering and food	981	204	3,777	6,416	-	5	2,253	283	13,919	892,012	5	3,357	895,374	909,293
Marketing expense	4,842	596	10,281	34,603	-	15	5,959	14,236	70,532	-	3,919	41,239	45,158	115,690
Volunteer expense	-	-	87	110	-	-	119,615	-	119,812	1,466	-	-	1,466	121,278
Bad debt expense	-	-	241	-	-	-	-	-	241	-	-	-	-	241
Dues and subscriptions	-	-	-	278	-	-	-	10	288	-	621	10	631	919
Conferences and seminars	394	5,008	2,798	871	-	156	116	2,331	11,674	-	6,519	2,263	8,782	20,456
Depreciation	131,672	104,489	218,271	11,101	42,899	302	7,713	17,189	533,636	-	6,994	10,084	17,078	550,714
Insurance expense	27,392	7,667	16,378	351	-	-	-	-	51,788	-	13,082	-	13,082	64,870
Technology expense	86,132	40,606	132,045	41,919	14,962	1,052	78,719	67,672	463,107	-	56,945	41,297	98,242	561,349
Community education events	-	-	1,066	-	-	-	-	20,562	21,628	-	-	-	-	21,628
Printing and production	29,537	30,927	38,545	375,669	-	4	35	9,352	484,069	15,040	128	47,063	62,231	546,300
Postage	24,346	14,177	18,805	44,870	-	103	1,910	7,369	111,580	5,578	7,780	127,413	140,771	252,351
Repairs and maintenance	39,249	38,115	80,539	1,935	13,663	49	1,360	2,798	177,708	-	7,857	1,763	9,620	187,328
Telephone and internet	13,274	7,958	29,376	2,029	440	12	5,770	703	59,562	-	2,418	579	2,997	62,559
Travel, meals and auto	22,544	3,958	1,441	1,286	-	-	-	1,075	30,304	921	3,390	37	4,348	34,652
Occupancy	43,439	51,139	65,016	1,392	5,051	63	973	2,157	169,230	-	2,641	1,300	3,941	173,171
Training reimbursement	-	-	37,100	-	-	-	-	-	37,100	-	-	-	-	37,100
Rental fees	1,108	2,379	2,621	933	1,865	29	923	2,251	12,109	84,092	319	2,297	86,708	98,817
Humane education	5,304	15,276	33	121,862	-	-	-	-	142,475	-	-	-	-	142,475
Total expenses	$ 3,559,906	$ 2,080,597	$ 2,200,320	$ 1,111,680	$ 247,447	$ 133,752	$ 497,502	$ 615,789	$ 10,446,993	$ 1,074,593	$ 761,440	$ 526,584	$ 2,362,617	$ 12,809,610

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

PAWS CHICAGO

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities:	
Cash received from customers	$ 2,342,311
Cash received from contributors	10,612,835
Investment income received	394,221
Cash paid to employees and suppliers	(11,489,100)
Net cash provided by operating activities	1,860,267
Cash flows from investing activities:	
Purchases of investment securities	(5,759,206)
Sale of investment securities	3,483,402
Purchases of property and equipment	(1,090,250)
Net cash used in investing activities	(3,366,054)
Cash flows from financing activities:	
Contributions restricted for long-term purposes	1,235,868
Decrease in cash	(269,919)
Cash at beginning of year	3,758,300
Cash at end of year	$ 3,488,381
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	$ 4,564,858
Adjustments:	
Net depreciation in investments	722,615
Depreciation	550,227
Provision for doubtful pledges	(547)
Contributions restricted for long-term purposes	(1,235,868)
Contributed investments received	(1,181,073)
(Increase) decrease in:	
Unconditional promises to give	(1,869,342)
Accounts receivable	192,070
Inventories	(34,395)
Prepaid expenses	(25,914)
Accrued interest and dividends	(17,237)
Increase (decrease) in:	
Accounts payable	24,038
Accrued expenses	174,474
Deferred revenue	(3,639)
Total adjustments	(2,704,591)
Net cash provided by operating activities	$ 1,860,267
Supplemental disclosure of non-cash operating and financing activities:	
In-kind contributions	$ 632,627

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

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

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

Nature of Activities

PAWS Chicago's mission is to build No Kill communities, starting with a No Kill Chicago; to end pet overpopulation; and to then transform animal welfare by setting higher standards. Since its founding, the number of pets killed each year in Chicago has been reduced by nearly 80 percent, based on available data. PAWS Chicago's lifesaving success is rooted in The No Kill Model, which can be replicated and scaled in any community. The foundation of all lifesaving is community engagement. By raising awareness about pet homelessness and engaging people in lifesaving efforts, we can make lasting change for animals. PAWS Chicago's mission-critical programs - our No Kill pillars of Prevention, Adoption, Animal Health & Behavior, and Volunteers -- sit atop this foundation. These are the robust programs that are essential to building No Kill communities:

Prevention & Spay/Neuter:
Preventing unwanted pets from being born is key to building a No Kill Chicago. The majority of stray, feral and unwanted pets originate in low income, under resourced communities. With the PAWS Chicago Lurie Clinic located in Little Village and the GusMobile Spay/Neuter Van, which brings life-saving solutions directly to neighborhoods most in need, we performed 18,418 spay/neuter surgeries in 2015. Seventy-four percent of client surgeries were provided free of charge. Broadening our spay/neuter reach and meeting people who would never knew about PAWS Chicago's support and resources is the key objective of our PAWS for Life outreach efforts. Our first neighborhood of focus is Englewood, where more than 49 percent of the population lives below the poverty line. PAWS achieved spay/neuter conversion rate of about 90 percent of all unaltered pets they met through this program. PAWS Chicago's feral cat Trap Neuter Return (TNR) program is another critical aspect of our targeted spay/neuter approach. It is aimed at proactively sterilizing and managing the free roaming cat population, the source of thousands of unwanted kittens born each year. TNR reduces the number of animals entering the sheltering system each year while also saving kittens and finding them adoptive homes. In 2015, PAWS performed 4,867 spay/neuter surgeries on feral cats.

Adoption:
Rescuing homeless pets and uniting them with their new families is at the forefront of what we do. Through PAWS Chicago's adoption centers, offsite events and innovative programming, 5,987 animals found loving homes in 2015. The Pippen Fasseas Adoption Center in Lincoln Park, which opened in 2007, redefined animal sheltering as the first cageless, state-of-the-art, No Kill shelter in the Midwest. PAWS Chicago's first satellite adoption facility, the Glenn L. Felner Adoption Center, represents an important step in PAWS Chicago's mission to expand lifesaving and build No Kill communities. Located inside the Highland Park *Petco*, the center was responsible for 622 adoptions in 2015. PAWS also holds innovative on-site adoption events like our Spring and Holiday 36-Hour Adopt-a-Thons to raise awareness and bring in the community, resulting in more lives saved. In addition, through our Angels with Tails off-site adoption events in Chicago and various suburban locations, we bring adoptable animals to high-traffic shopping centers and retail stores where people will stop, play with the animals and think about adopting. PAWS Chicago also hosted additional offsite adoption events almost every weekend during 2015. While saving and adopting out pets from the local community is PAWS Chicago's primary mission, because of the progress we have made in Chicago, we are able to rescue and find homes for at risk animals from other states. Our dog spay/neuter efforts have been so successful that in Chicago all the puppies at the city pound are being rescued, and there are more families wanting to adopt puppies than the Chicago rescue community can provide. To meet adoption demand, we have developed relationships with groups in Tennessee, Oklahoma and Mississippi to save puppies who would otherwise be killed.

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

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

Nature of Activities (Continued)

Animal Health & Behavior
Committing to the life of each treatable pet and providing all medical treatment and behavioral enrichment needed to optimize health and wellbeing is one of the most critical elements of No Kill. Because of our expert veterinary and behavior teams, we are one of the few shelters in the country that can treat and rehabilitate a large volume of sick, injured and behaviorally challenged animals. In 2015, we had a **97.87** percent Save Rate, even while taking in a vulnerable population of animals. The Medical Center—the first stop for homeless animals when they arrive at PAWS—treats the most serious cases onsite. We also utilize a robust foster network for pets receiving more simple treatment. In 2015, more than 41,000 vaccinations, microchips and blood tests were provided and PAWS treated more than 350 animals that had been exposed to the Canine Influenza Virus. The PAWS Training & Foster Care Center is home to our innovative dog training and enrichment programming and a hub to expand our geographic reach to new foster families. Through this center, our team of behavior professionals and trained volunteers provide our homeless dogs with one-on-one and group training, agility and enrichment. In 2015, **153** behaviorally challenged dogs found new loving homes. Expanding the Medical Center: With the progress we are seeing in Chicago, healthy animals are being saved in record numbers at the city pound, which means we are seeing a sicker population of animals in need of rescue, requiring enhanced medical resources to treat. To save more lives, PAWS Chicago is launching a major expansion of our Medical Center and shelter medicine program to increase our capacity to take in sick and injured animals.

Volunteers
Volunteers are the life-force behind PAWS Chicago's operations and an essential ingredient to building a No Kill Chicago. In 2015, volunteers dedicated 117,007 hours of service, fulfilling the work of 56 full time employees. And this doesn't even include foster families who took in and cared for animals in need. During 2015, 2,841 animals were placed in foster care. In addition to the time they commit to PAWS Chicago, volunteers are also our ambassadors, reaching new people and engaging new communities in the cause of homeless animals through their everyday interactions.

Community Engagement
Community engagement is the foundation for creating lasting change for animals and is the basis upon which all of our programs are built. Shining a light on pet homelessness-and the resultant killing-has mobilized thousands of people to get involved in our cause by adopting, volunteering, fostering, advocating for and donating to homeless pets. We continued to raise awareness by working with the media to promote the cause of homeless pets, as well as through our web site, social media and PAWS Chicago Magazine, which has the largest circulation of any Chicago magazine publication. Through our No Kill model in action, PAWS Chicago is also leading a movement, creating a community and preparing the foundation to be able to share what we have learned on a national basis. Every year, we welcome shelters, rescue groups and individuals from around the country to shadow our operations. Our teams help start-up adoption groups and spay/neuter clinics around the world. We help rescue groups and shelters close to home by providing low cost medical services at the Lurie Spay/Neuter Clinic and by increasing exposure of their homeless animals through our Angels with Tails adoption events.

Basis of Accounting

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

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

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

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.

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 or at the present value of their estimated 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. Assets are capitalized only if they have estimated useful lives of at least two years and have an initial value of $1,000 or more.

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.

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

Property, Equipment, and Depreciation (Continued)

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

	Years
Buildings	10-40
Furniture fixtures and improvements	5-15
Equipment	7-10
Computer equipment	3-10
Software	3-7
Vehicles	5-10

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 and Supplies

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. Donated supplies are recognized as contributions and program expense. They are valued at their estimated retail value of $632,627.

Advertising

The Organization recognizes advertising expenditures as cost of advertising as they are incurred. Advertising expense totaled $17,998 for the year ended December 31, 2015.

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 income tax required for 2015. The Organization's federal Forms 990 and 990-T for 2015, 2014, and 2013 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 July 25, 2016, the date the financial statements were available to be issued.

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

Note 2 – Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect net assets and the amounts reported in the statement of activities.

Investments at December 31, 2015 are reported at fair value and are composed of the following:

Money market	$ 2,530,757
Mutual funds	
Emerging markets	392,520
Fixed income	2,775,878
International equity	3,669,067
Large Cap Blend	4,613,039
Large Cap Growth	994,928
Mid Cap Blend	453,048
Real Estate	574,862
Small Cap	545,336
Stocks	
Commodities	413,450
Consumer discretionary	11,491
Energy	433,294
Financial	746,893
Healthcare	165,657
Industrials	632,944
Information technology	2,335,477
Other	21,507
Telecommunications	462,020
	$21,772,168

During the year ended December 31, 2015 the Organization's investments (including investments bought, sold, as well as held during the period) depreciated in fair value by $722,615.

Fair Value Measurement

Financial Accounting Standards Board Accounting Standards Codification 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Note 2 – Investments (Continued)

Fair Value Measurement (Continued)

Level 2: Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

Level 1 Measurements: Fair values for investments are determined by quoted market prices. Mutual funds discussed above determine fair value using a calculated net asset value per share, or its equivalent. As of December 31, 2015, the fair value of the mutual funds was $14,018,678, 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.

Note 3 – Unconditional Promises to Give

Unconditional promises to give have been received in support of the spay/neuter clinic, the adoption centers, and the endowment fund. The carrying value of unconditional promises to give is determined by calculating the present value of estimated future pledge payments expected to be received, over the expected term of the agreements, using a risk-adjusted discount rate of 3.25% at December 31, 2015 (See Note 11). Unconditional promises to give include the following:

Promises to give beginning of year, as restated	$ 952,129
Amount pledged during the year	2,760,000
Amount collected during the year	(750,909)
Pledges written off	-
Promises to give end of year	2,961,220
Less:	
Discounts to present value	(218,575)
Allowance for doubtful promises	(44,357)
Net promises to give	$2,698,288

Note 3 – Unconditional Promises to Give (Continued)

Unconditional promises to give at December 31, 2015 are as follows.

Promises to give expected to be collected in:

Less than one year	$ 864,101
One to five years	1,397,365
More than five years	699,754
	$2,961,220

Note 4 – Inventories

Inventories at December 31, 2015 consist of the following:

Merchandise	$ 57,139
Medical supplies	85,629
	$142,768

Note 5 – Property, Equipment, and Depreciation

Property and equipment at December 31, 2015 consists of the following:

Land	$ 4,319,619
Buildings	8,602,138
Furniture fixtures and improvements	1,138,609
Equipment	484,469
Computer equipment	463,088
Software	202,516
Vehicles	434,232
	15,644,671
Less accumulated depreciation	3,214,659
	$12,430,012

Depreciation expense for the year ended December 31, 2015 was $550,227 (See Note 11).

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 determines annually any allocation of contributions, investment income, and gains or losses from investments, as well as any appropriation of its board-designated endowments for expenditure. During the year ended December 31, 2015 $600,000 was appropriated for expenditure.

Note 6 – Net Assets (Continued)

Board-designated Endowment (Continued)

Composition of and changes in board-designated endowment net assets for the year ended December 31, 2015 are as follows:

Beginning designated balance	$13,478,832
Contributions	1,465,588
Appropriated for expenditure	(600,000)
Ending designated balance	$14,344,420

Donor-restricted Endowment

The Organization's permanently restricted net assets consist of five 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.

Note 6 – Net Assets (Continued)

Endowment Net Assets

Endowment net asset composition by type of fund as of December 31, 2015 are as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Assets
Endowment Funds:			
Donor-restricted	$ -	$3,166,296	$ 3,166,296
Board-designated	14,344,420	-	14,344,420
	$14,344,420	$3,166,296	$17,510,716

Changes in endowment net assets as of December 31, 2015 are as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Assets
Endowment Funds:			
Beginning of year, as restated	$13,478,832	$1,930,428	$15,409,260
Contributions	1,465,588	1,235,868	2,701,456
Appropriated for expenditure	(600,000)	-	(600,000)
End of year	$14,344,420	$3,166,296	$17,510,716

Temporarily Restricted Net Assets

Following is a summary of the activity in temporarily restricted net assets for the year ended December 31, 2015:

	Beginning Balance, As Restated	Additions	Assets Released	Ending Balance
Adoption program	$1,327,259	$ 865,412	$ 962,508	$1,230,163
GUS Mobile	341,881	111,132	42,384	410,629
Sick and injured / shelter medicine	-	1,014,505	223,189	791,316
Strategic initiatives growth fund	241,609	1,237,121	202,362	1,276,368
Other timing restrictions	-	230,036	146,660	83,376
	$1,910,749	$3,458,206	$1,577,103	$3,791,852

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NOTES TO FINANCIAL STATEMENTS

Note 6 – Net Assets (Continued)

Permanently Restricted Net Assets

The following is a summary of permanently restricted net assets as of December 31, 2015:

Free spay/neuter program	$1,231,296
Lincoln Park Adoption Center	1,000,000
Medical assistance for dogs with treatable illness	500,000
Medical treatment of animals under 6 months old	180,000
General endowment	255,000
	$3,166,296

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 Lease

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 – 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 employer contributions were made for 2015.

Note 9 – 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, 2015 two contributors accounted for 18% of total contribution revenue to the Organization in the form of securities and a pledge.

Note 10 – 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.

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NOTES TO FINANCIAL STATEMENTS

Note 11 – Prior Period Adjustments

The Organization recorded five prior period adjustments in 2015.

Permanently Restricted Net Assets

In 2014 a pledge intended for permanent endowment was recorded at its discounted net value. Beginning net assets were increased by $23,952 to record the pledge at its undiscounted value. Unrestricted net assets were decreased by the same amount.

Temporarily Restricted Net Assets

In prior years funds had been raised for the adoption center program. Management determined in 2015 that the primary program had been completed. Consequently, contributions received after its completion should have been classified as unrestricted net assets. Similarly, funds had been received to support the purchase of shelter medicine in the admissions and recovery program. Management has determined that sufficient funds have been disbursed in 2013 and 2014 to cover the amounts raised. The beginning balance of temporarily restricted net assets as of December 31, 2014 was reduced by a total of $6,291,711 and unrestricted net assets were increased by the same amount.

Discounts on Pledges

The risk-adjusted discount rate to be used in the present value calculation of long-term unconditional promises to give should fall on a continuum between the risk-free rate (minimum) and the unsecured borrowing rate (maximum) of the Organization. Discounts on pledges had been computed at the risk-adjusted rate of 6.00%. During 2015 management determined that the risk-adjusted rate should have been 3.25%. Beginning net assets as of December 31, 2014 were increased by $36,836 to recognize the effect of this change in the discount rate.

Depreciation

During 2015 the depreciable lives of all property and equipment were reassessed. Since the change in the depreciable lives resulted from a misuse of the facts that existed at the time the property was placed in service, the impact of the adjustments is reported as a prior period adjustment. The largest change was the decrease of the depreciable life of buildings from 70 years to 40 years. The net effect of all changes was a decrease to the beginning net assets as of December 31, 2014 in the amount of $401,390.

The following table summarizes the changes:

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at December 31, 2014, as previously reported	$25,752,403	$ 8,202,460	$1,906,476	$35,861,339
Discount accretion	(23,952)	-	23,952	-
Reclassify net assets – adoption center	6,044,910	(6,044,910)	-	-
Reclassify net assets – shelter medicine	246,801	(246,801)	-	-
Discount on pledges	36,836	-	-	36,836
Accumulated depreciation	(401,390)	-	-	(401,390)
	5,903,205	(6,291,711)	23,952	(364,554)
Net assets at December 31, 2014, as restated	$31,655,608	$ 1,910,749	$1,930,428	$35,496,785