

PAWS CHICAGO

FINANCIAL REPORT

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, and the related statements of activities, functional expenses, 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, 2016 and 2015, 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

August 22, 2017

PAWS CHICAGOSTATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash	\$ 3,488,614	\$ 3,488,381
Investments, at fair value	29,319,876	21,772,168
Unconditional promises to give, net	2,004,190	2,698,288
Accounts receivable	368,462	132,112
Inventories	142,183	142,768
Prepaid expenses	215,493	157,957
Accrued interest and dividends	610	21,513
Property and equipment, net	12,024,957	12,430,012
Total assets	<u>\$ 47,564,385</u>	<u>\$ 40,843,199</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 322,233	\$ 403,354
Accrued expenses	244,194	317,696
Deferred revenue	157,131	60,506
Total liabilities	<u>723,558</u>	<u>781,556</u>
Net assets		
Unrestricted	35,773,803	33,103,495
Temporarily restricted	6,852,147	3,791,852
Permanently restricted	4,214,877	3,166,296
Total net assets	<u>46,840,827</u>	<u>40,061,643</u>
Total liabilities and net assets	<u>\$ 47,564,385</u>	<u>\$ 40,843,199</u>

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

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016						2015					
	UNRESTRICTED			Temporarily Restricted	Permanently Restricted	Total	UNRESTRICTED			Temporarily Restricted	Permanently Restricted	Total
	Operations	Board Designated	Total				Operations	Board Designated	Total			
REVENUE												
Program service fees:												
Adoption centers	\$ 930,685	\$ -	\$ 930,685	\$ -	\$ -	\$ 930,685	\$ 980,068	\$ -	\$ 980,068	\$ -	\$ -	\$ 980,068
Admission centers	3,215	-	3,215	-	-	3,215	6,504	-	6,504	-	-	6,504
Spay/neuter clinic	1,053,440	-	1,053,440	-	-	1,053,440	951,030	-	951,030	-	-	951,030
Training center	153,255	-	153,255	-	-	153,255	136,517	-	136,517	-	-	136,517
Contributions	5,477,046	737,533	6,214,579	3,612,020	1,048,581	10,875,180	5,081,791	1,465,588	6,547,379	3,458,206	1,235,868	11,241,453
Contributions - in kind	631,780	-	631,780	-	-	631,780	632,627	-	632,627	-	-	632,627
Investment income	605,225	-	605,225	-	-	605,225	411,458	-	411,458	-	-	411,458
Net appreciation(depreciation) of investments	1,319,346	-	1,319,346	-	-	1,319,346	(722,615)	-	(722,615)	-	-	(722,615)
Special events	3,517,279	-	3,517,279	-	-	3,517,279	3,657,665	-	3,657,665	-	-	3,657,665
Other income	31,954	-	31,954	-	-	31,954	79,761	-	79,761	-	-	79,761
Net assets released from restrictions	551,725	-	551,725	(551,725)	-	-	2,177,103	(600,000)	1,577,103	(1,577,103)	-	-
Total revenue	14,274,950	737,533	15,012,483	3,060,295	1,048,581	19,121,359	13,391,909	865,588	14,257,497	1,881,103	1,235,868	17,374,468
EXPENSES												
Program services:												
Rescue & recovery center	3,431,683	-	3,431,683	-	-	3,431,683	3,559,906	-	3,559,906	-	-	3,559,906
Spay/neuter clinic	1,739,789	-	1,739,789	-	-	1,739,789	2,080,597	-	2,080,597	-	-	2,080,597
Adoption center - Lincoln Park	1,844,375	-	1,844,375	-	-	1,844,375	1,916,669	-	1,916,669	-	-	1,916,669
Adoption center - North Shore	230,441	-	230,441	-	-	230,441	283,651	-	283,651	-	-	283,651
Humane education	570,176	-	570,176	-	-	570,176	1,111,680	-	1,111,680	-	-	1,111,680
Training center	267,472	-	267,472	-	-	267,472	247,447	-	247,447	-	-	247,447
Training - internal	184,488	-	184,488	-	-	184,488	133,752	-	133,752	-	-	133,752
Volunteer program	552,128	-	552,128	-	-	552,128	497,502	-	497,502	-	-	497,502
Community development	731,502	-	731,502	-	-	731,502	615,789	-	615,789	-	-	615,789
	9,552,054	-	9,552,054	-	-	9,552,054	10,446,993	-	10,446,993	-	-	10,446,993
Supporting services:												
Management and general	733,215	-	733,215	-	-	733,215	761,440	-	761,440	-	-	761,440
Special events	1,506,434	-	1,506,434	-	-	1,506,434	1,074,593	-	1,074,593	-	-	1,074,593
Fundraising	550,472	-	550,472	-	-	550,472	526,584	-	526,584	-	-	526,584
	2,790,121	-	2,790,121	-	-	2,790,121	2,362,617	-	2,362,617	-	-	2,362,617
Total expenses	12,342,175	-	12,342,175	-	-	12,342,175	12,809,610	-	12,809,610	-	-	12,809,610
Change in net assets	1,932,775	737,533	2,670,308	3,060,295	1,048,581	6,779,184	582,299	865,588	1,447,887	1,881,103	1,235,868	4,564,858
Net assets at beginning of year	18,759,075	14,344,420	33,103,495	3,791,852	3,166,296	40,061,643	18,176,776	13,478,832	31,655,608	1,910,749	1,930,428	35,496,785
Designation of net assets	(6,000,000)	6,000,000	-	-	-	-	-	-	-	-	-	-
Net assets at end of year	\$ 14,691,850	\$ 21,081,953	\$ 35,773,803	\$ 6,852,147	\$ 4,214,877	\$ 46,840,827	\$ 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.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services								Supporting Services					Total
	Rescue and Recovery	Spay/Neuter Clinic	Adoption Centers	Humane Education	Training Center	Training Internal	Volunteer Program	Community Development	Total Program Services	Special Events	Management And General	Fund Raising	Total Supporting Services	
EXPENSES														
Compensation	\$ 1,724,015	\$ 1,063,412	\$1,040,716	\$ 280,599	\$167,699	\$119,464	\$ 393,016	\$ 255,549	\$ 5,044,470	\$ 285,267	\$ 294,641	\$ 78,557	\$ 658,465	\$ 5,702,935
Benefits and taxes	232,911	144,833	137,751	42,097	25,160	17,923	58,962	38,339	697,976	42,797	29,497	11,786	84,080	782,056
Animal care supplies	256,698	3,354	177,860	145	-	-	-	-	438,057	-	-	110	110	438,167
Medical supplies	672,350	149,403	1,510	5,015	-	21,887	-	-	850,165	-	-	-	-	850,165
Merchandise cost	-	-	1,352	-	-	-	-	53,230	54,582	(1,903)	-	-	(1,903)	52,679
Professional fees	188,255	20,680	44,240	82,886	7,077	24,430	1,045	61,123	429,736	7,995	212,622	189,883	410,500	840,236
Office supplies	56,999	26,666	61,441	5,774	3,363	540	7,694	3,724	166,201	93,310	73,270	1,352	167,932	334,133
Advertising	-	-	5,793	-	-	-	-	1,160	6,953	2,000	-	-	2,000	8,953
Event catering and food	131	30,000	1,916	146	-	-	7,405	4,625	44,223	770,947	3,862	4,039	778,848	823,071
Marketing expense	-	304	1,676	-	-	-	-	24,972	26,952	19,522	228	2,166	21,916	48,868
Volunteer expense	-	-	43	-	-	-	2,453	-	2,496	1,168	-	-	1,168	3,664
Bad debt expense	-	-	22,500	-	-	-	-	-	22,500	-	-	-	-	22,500
Dues and subscriptions	330	-	117	12	-	-	-	573	1,032	26	1,313	1,706	3,045	4,077
Conferences and seminars	2,863	6,148	1,096	-	-	-	702	1,854	12,663	1,032	9,614	747	11,393	24,056
Depreciation	59,836	112,806	257,686	10,432	40,502	-	5,004	-	486,266	28,472	6,318	6,104	40,894	527,160
Insurance expense	16,106	6,537	11,608	1,452	-	-	-	-	35,703	-	16,096	-	16,096	51,799
Technology expense	79,886	39,672	99,023	21,031	12,294	-	65,604	12,498	330,008	107,231	69,162	15,299	191,692	521,700
Community education events	-	-	75	1,136	-	-	-	34	1,245	-	-	-	-	1,245
Printing and production	21,453	7,808	1,735	46,753	-	-	-	182,549	260,298	38,647	2,847	131,694	173,188	433,486
Postage	16,100	314	148	50,642	-	-	22	89,667	156,893	16,109	8,205	102,656	126,970	283,863
Repairs and maintenance	24,042	36,230	47,168	6,290	4,628	-	521	-	118,879	2,944	3,590	652	7,186	126,065
Telephone and internet	17,885	13,748	33,703	2,380	633	-	7,283	-	75,632	1,583	(4,442)	633	(2,226)	73,406
Travel, meals and auto	6,833	4,138	3,472	11,876	-	-	1,667	84	28,070	2,753	3,491	278	6,522	34,592
Occupancy	54,990	66,594	66,768	1,510	6,116	244	750	-	196,972	4,405	1,446	1,316	7,167	204,139
Training reimbursement	-	-	52,100	-	-	-	-	-	52,100	-	-	-	-	52,100
Rental fees	-	6,582	3,319	-	-	-	-	1,521	11,422	82,129	1,455	1,494	85,078	96,500
Humane education	-	560	-	-	-	-	-	-	560	-	-	-	-	560
Total expenses	\$ 3,431,683	\$ 1,739,789	\$2,074,816	\$ 570,176	\$267,472	\$184,488	\$ 552,128	\$ 731,502	\$ 9,552,054	\$1,506,434	\$ 733,215	\$550,472	\$ 2,790,121	\$12,342,175

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services									Supporting Services				Total
	Rescue and Recovery	Spay/Neuter Clinic	Adoption Centers	Humane Education	Training Center	Training Internal	Volunteer Program	Community Development	Total Program Services	Special Events	Management And General	Fund Raising	Total Supporting Services	
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	<u>\$ 3,559,906</u>	<u>\$ 2,080,597</u>	<u>\$ 2,200,320</u>	<u>\$ 1,111,680</u>	<u>\$ 247,447</u>	<u>\$ 133,752</u>	<u>\$ 497,502</u>	<u>\$ 615,789</u>	<u>\$ 10,446,993</u>	<u>\$ 1,074,593</u>	<u>\$ 761,440</u>	<u>\$ 526,584</u>	<u>\$ 2,362,617</u>	<u>\$ 12,809,610</u>

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

PAWS CHICAGOSTATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 2,032,824	\$ 2,342,311
Cash received from contributors	12,881,651	10,612,835
Investment income received	626,128	394,221
Cash paid to employees and suppliers	(11,404,164)	(11,489,100)
Net cash provided by operating activities	<u>4,136,439</u>	<u>1,860,267</u>
Cash flows from investing activities:		
Purchases of investment securities	(6,587,941)	(5,759,206)
Sale of investment securities	1,540,260	3,483,402
Purchases of property and equipment	(137,106)	(1,090,250)
Net cash used in investing activities	<u>(5,184,787)</u>	<u>(3,366,054)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	<u>1,048,581</u>	<u>1,235,868</u>
Increase (decrease) in cash	233	(269,919)
Cash at beginning of year	<u>3,488,381</u>	<u>3,758,300</u>
Cash at end of year	<u>\$ 3,488,614</u>	<u>\$ 3,488,381</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	<u>\$ 6,779,184</u>	<u>\$ 4,564,858</u>
Adjustments:		
Net (appreciation) depreciation in investments	(1,319,346)	722,615
Depreciation	527,160	550,714
Provision for doubtful pledges	(24,356)	(1,034)
Contributions restricted for long-term purposes	(1,048,581)	(1,235,868)
Contributed investments received	(1,180,682)	(1,181,073)
(Increase) decrease in:		
Unconditional promises to give	718,455	(1,869,342)
Accounts receivable	(236,350)	192,070
Inventories	586	(34,395)
Prepaid expenses	(57,536)	(25,914)
Accrued interest and dividends	20,903	(17,237)
Increase (decrease) in:		
Accounts payable	(66,121)	24,038
Accrued expenses	(73,502)	174,474
Deferred revenue	96,625	(3,639)
Total adjustments	<u>(2,642,745)</u>	<u>(2,704,591)</u>
Net cash provided by operating activities	<u>\$ 4,136,439</u>	<u>\$ 1,860,267</u>
Supplemental disclosure of non-cash operating and financing activities:		
In-kind contributions	<u>\$ 631,780</u>	<u>\$ 632,627</u>

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 more than 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 lifesaving solutions directly to neighborhoods most in need, we performed 17,236 spay/neuter surgeries in 2016. Seventy-five 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 83 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 2016, PAWS performed 3,448 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, 5,125 animals found loving homes in 2016. 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 447 adoptions in 2016. PAWS also holds innovative on-site adoption events like our Spring and Holiday 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 2016. 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 CHICAGONOTES 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 2016, we had a 98.41 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 2016, PAWS treated more than 380 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 2016, 173 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 essential ingredients to building a No Kill Chicago. In 2016, volunteers dedicated 133,618 hours of service, fulfilling the work of 64 full time employees. And this doesn't even include foster families who took in and cared for animals in need. During 2016, 2,547 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 our learnings 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 CHICAGONOTES 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 and at fair value, which is measured 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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

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:

	<u>Years</u>
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.

Advertising

The Organization recognizes advertising expenditures as an expense as they are incurred. Advertising expense totaled \$8,953 and 17,998 for the years ended December 31, 2016 and 2015, 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 income tax required for 2016 or 2015. The Organization's federal Forms 990 and 990-T for 2016, 2015, and 2014 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 August 22, 2017, 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

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 are reported at fair value and are composed of the following:

	<u>2016</u>	<u>2015</u>
Money market	\$ 3,113,619	\$ 2,530,757
Mutual funds		
Balanced	914,588	-
Emerging markets	429,360	392,520
Fixed income	6,043,472	2,775,878
Global equity	1,683,433	-
International equity	2,306,855	3,669,067
Large Cap Blend	1,141,870	4,613,039
Large Cap Growth	3,400,236	994,928
Large Cap Value	857,698	-
Mid Cap Blend	544,430	453,048
Mid Cap Value	681,726	-
Other	1,568,836	-
Real Estate	608,535	574,862
Small Cap	665,163	545,336
Stocks		
Commodities	-	413,450
Conglomerates	651,276	-
Consumer discretionary	2,303	11,491
Consumer staples	2,167	-
Energy	423,443	433,294
Financial	932,455	746,893
Healthcare	215,118	165,657
Industrials	2,532	632,944
Information technology	2,466,915	2,335,477
Other	23,862	21,507
Telecommunications	534,812	462,020
Utilities	105,172	-
	<u>\$29,319,876</u>	<u>\$21,772,168</u>

During the year ended December 31, 2016 the Organization's investments (including investments bought, sold, as well as held during the period) appreciated in fair value by \$1,319,346 and, during the year ended December 31, 2015, investments 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).

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 2 – Investments (Continued)

Fair Value Measurement (Continued)

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.

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, 2016 and 2015.

Level 1 Measurements: Fair values for investments are determined by quoted market prices. Mutual funds determine fair value using a calculated net asset value per share, or its equivalent. As of December 31, 2016 and 2015, the fair value of the mutual funds was \$20,846,202 and \$14,018,678 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.

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. Carrying value of unconditional promises to give is 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 3.25% at December 31, 2016 and 2015. Unconditional promises to give include the following:

	2016	2015
Promises to give beginning of year	\$2,961,220	\$ 952,129
Amount pledged during the year	290,000	2,760,000
Amount collected during the year	(942,650)	(750,909)
Pledges written off	(46,858)	-
Promises to give end of year	2,261,712	2,961,220
Less:		
Discounts to present value	(237,522)	(218,575)
Allowance for doubtful promises	(20,000)	(44,357)
Net promises to give	<u>\$2,004,190</u>	<u>\$2,698,288</u>

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 3 – Unconditional Promises to Give (Continued)

Unconditional promises to give at December 31, 2016 and 2015 are as follows.

Promises to give expected to be collected in:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 593,947	\$ 864,101
One to five years	1,318,000	1,397,365
More than five years	<u>349,765</u>	<u>699,754</u>
	<u>\$2,261,712</u>	<u>\$2,961,220</u>

Note 4 – Inventories

Inventories at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Merchandise	\$ 73,960	\$ 57,139
Medical supplies	<u>68,223</u>	<u>85,629</u>
	<u>\$142,183</u>	<u>\$142,768</u>

Note 5 – Property, Equipment, and Depreciation

Property and equipment at December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 3,514,619	\$ 3,514,619
Buildings	8,602,138	8,602,138
Furniture fixtures and improvements	1,205,909	1,138,609
Equipment	520,167	484,469
Computer equipment	470,696	463,088
Software	229,016	202,516
Vehicles	<u>434,232</u>	<u>434,232</u>
	14,976,777	14,839,671
Less accumulated depreciation	<u>3,741,820</u>	<u>3,214,659</u>
	11,234,957	11,625,012
Construction in progress	<u>790,000</u>	<u>805,000</u>
	<u>\$12,024,957</u>	<u>\$12,430,012</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$527,160 and \$550,714, respectively.

Late in 2015, the Organization purchased land and a building near the main adoption center in the amount of \$805,000. During 2016 a decision was made to remodel the building and \$15,000 of capitalized cost was expensed. The total cost of the project is expected to be in excess of \$1,000,000. The building should be available for occupancy in 2017.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

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. There were no appropriations during 2016.

Composition of and changes in board-designated endowment net assets for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Beginning designated balance	\$14,344,420	\$13,478,832
Contributions	737,533	1,465,588
Investment income	-	-
Net appreciation (depreciation) on investment of temporarily restricted funds	-	-
Current designation	6,000,000	-
Appropriated for expenditure	<u>-</u>	<u>(600,000)</u>
Ending designated balance	<u>\$21,081,953</u>	<u>\$14,344,420</u>

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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 6 – 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 Assets

Endowment net asset composition by type of fund as of December 31, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
<i>December 31, 2016</i>			
Endowment Funds:			
Donor-restricted	\$ -	\$4,214,877	\$ 4,214,877
Board-designated	<u>21,081,953</u>	<u>-</u>	<u>21,081,953</u>
	<u>\$21,081,953</u>	<u>\$4,214,877</u>	<u>\$25,296,830</u>
<i>December 31, 2015</i>			
Endowment Funds:			
Donor-restricted	\$ -	\$3,166,296	\$ 3,166,296
Board-designated	<u>14,344,420</u>	<u>-</u>	<u>14,344,420</u>
	<u>\$14,344,420</u>	<u>\$3,166,296</u>	<u>\$17,510,716</u>

Changes in endowment net assets as of December 31, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
<i>December 31, 2016</i>			
Endowment Funds:			
Beginning of year	\$14,344,420	\$3,166,296	\$17,360,516
Contributions	737,533	1,048,581	1,786,144
Investment income	-	-	-
Current designation	6,000,000	-	6,000,000
Appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$21,081,953</u>	<u>\$4,214,877</u>	<u>\$25,296,830</u>
<i>December 31, 2015</i>			
Endowment Funds:			
Beginning of year	\$13,478,832	\$1,930,428	\$15,409,260
Contributions	1,465,588	1,235,868	2,701,456
Investment income	-	-	-
Current designation	-	-	-
Appropriated for expenditure	<u>(600,000)</u>	<u>-</u>	<u>(600,000)</u>
End of year	<u>\$14,344,420</u>	<u>\$3,166,296</u>	<u>\$17,510,716</u>

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

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, 2016 and 2015:

	2016			
	Beginning Balance	Additions	Assets Released	Ending Balance
Adoption program	\$1,230,163	\$ 292,492	\$176,178	\$1,346,477
GUS Mobile	410,629	55,566	25,770	440,425
Sick and injured / shelter medicine	1,097,809	5,500	100,500	1,002,809
Spay/Neuter Clinic	-	151,500	131,020	20,480
Strategic initiatives growth fund	969,875	2,915,597	54,881	3,830,591
Other timing restrictions	83,376	191,365	63,376	211,365
	<u>\$3,791,852</u>	<u>\$3,612,020</u>	<u>\$551,725</u>	<u>\$6,852,147</u>

	2015			
	Beginning Balance	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
	<u>\$1,910,749</u>	<u>\$3,458,206</u>	<u>\$1,577,103</u>	<u>\$3,791,852</u>

Permanently Restricted Net Assets

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

	2016	2015
Free spay/neuter program	\$1,231,296	\$1,231,296
Lincoln Park Adoption Center	2,013,581	1,000,000
Medical assistance for dogs with treatable illness	500,000	500,000
Medical treatment of animals under 6 months old	180,000	180,000
General endowment	290,000	255,000
	<u>\$4,214,877</u>	<u>\$3,166,296</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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 7 – Operating Leases

The Organization has a lease with a retail merchant in Highland Park, Illinois whereby the Organization occupies a small space within their retail store to operate a satellite adoption facility. The lease term began in 2014 and 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 maintains 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 2016 or 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, 2016 two contributors accounted for 28% of total contribution revenue to the Organization. For the year ended December 31, 2015, contributions from one major contributor accounted for 18% of the total contributions to the Organization.

Note 10 – Functional Allocation of Expenses

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