

PAWS CHICAGO
FINANCIAL REPORT
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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

September 18, 2018

PAWS CHICAGOSTATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

<u>A S S E T S</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 3,489,990	\$ 3,488,614
Investments, at fair value	39,241,240	29,319,876
Unconditional promises to give, net	2,290,800	2,004,190
Accounts receivable	1,012,271	368,462
Inventories	115,660	142,183
Prepaid expenses	329,784	215,493
Accrued interest and dividends	610	610
Property and equipment, net	12,147,586	12,024,957
Total assets	<u>\$58,627,941</u>	<u>\$47,564,385</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 487,463	\$ 322,233
Accrued expenses	237,221	244,194
Deferred revenue	168,658	157,131
Total liabilities	<u>893,342</u>	<u>723,558</u>
Net assets		
Unrestricted	43,410,693	35,773,803
Temporarily restricted	8,389,610	6,852,147
Permanently restricted	5,934,296	4,214,877
Total net assets	<u>57,734,599</u>	<u>46,840,827</u>
Total liabilities and net assets	<u>\$58,627,941</u>	<u>\$47,564,385</u>

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

PAWS CHICAGO

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017						2016					
	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	\$ 1,051,425	\$ -	\$ 1,051,425	\$ -	\$ -	\$ 1,051,425	\$ 930,685	\$ -	\$ 930,685	\$ -	\$ -	\$ 930,685
Admission centers	1,250	-	1,250	-	-	1,250	3,215	-	3,215	-	-	3,215
Spay/neuter clinic	867,056	-	867,056	-	-	867,056	1,053,440	-	1,053,440	-	-	1,053,440
Training center	151,343	-	151,343	-	-	151,343	153,255	-	153,255	-	-	153,255
Contributions	5,031,895	1,204,762	6,236,657	2,738,464	1,719,419	10,694,540	5,477,046	737,533	6,214,579	3,612,020	1,048,581	10,875,180
Contributions - in kind	618,965	-	618,965	-	-	618,965	631,780	-	631,780	-	-	631,780
Investment income	1,194,814	-	1,194,814	-	-	1,194,814	605,225	-	605,225	-	-	605,225
Net appreciation of investments	3,842,550	-	3,842,550	-	-	3,842,550	1,319,346	-	1,319,346	-	-	1,319,346
Special events	3,645,942	-	3,645,942	-	-	3,645,942	3,517,279	-	3,517,279	-	-	3,517,279
Other income	72,538	-	72,538	-	-	72,538	31,954	-	31,954	-	-	31,954
Net assets released from restrictions	1,201,001	-	1,201,001	(1,201,001)	-	-	551,725	-	551,725	(551,725)	-	-
Total revenue	17,678,779	1,204,762	18,883,541	1,537,463	1,719,419	22,140,423	14,274,950	737,533	15,012,483	3,060,295	1,048,581	19,121,359
EXPENSES												
Program services:												
Rescue and recovery center	3,691,512	-	3,691,512	-	-	3,691,512	3,431,683	-	3,431,683	-	-	3,431,683
Spay/neuter clinic	1,442,981	-	1,442,981	-	-	1,442,981	1,739,789	-	1,739,789	-	-	1,739,789
Adoption centers	1,768,841	-	1,768,841	-	-	1,768,841	2,074,816	-	2,074,816	-	-	2,074,816
Community outreach	456,650	-	456,650	-	-	456,650	570,176	-	570,176	-	-	570,176
Training center	-	-	-	-	-	-	267,472	-	267,472	-	-	267,472
Training - internal	-	-	-	-	-	-	184,488	-	184,488	-	-	184,488
Volunteer program	350,411	-	350,411	-	-	350,411	552,128	-	552,128	-	-	552,128
Community development	755,149	-	755,149	-	-	755,149	731,502	-	731,502	-	-	731,502
	8,465,544	-	8,465,544	-	-	8,465,544	9,552,054	-	9,552,054	-	-	9,552,054
Supporting services:												
Management and general	724,835	-	724,835	-	-	724,835	733,215	-	733,215	-	-	733,215
Special events	1,616,090	-	1,616,090	-	-	1,616,090	1,506,434	-	1,506,434	-	-	1,506,434
Fundraising	440,182	-	440,182	-	-	440,182	550,472	-	550,472	-	-	550,472
	2,781,107	-	2,781,107	-	-	2,781,107	2,790,121	-	2,790,121	-	-	2,790,121
Total expenses	11,246,651	-	11,246,651	-	-	11,246,651	12,342,175	-	12,342,175	-	-	12,342,175
Change in net assets	6,432,128	1,204,762	7,636,890	1,537,463	1,719,419	10,893,772	1,932,775	737,533	2,670,308	3,060,295	1,048,581	6,779,184
Net assets at beginning 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
Designation of net assets	(4,800,000)	4,800,000	-	-	-	-	(6,000,000)	6,000,000	-	-	-	-
Net assets at end of year	\$ 16,323,978	\$ 27,086,715	\$ 43,410,693	\$ 8,389,610	\$ 5,934,296	\$ 57,734,599	\$ 14,691,850	\$ 21,081,953	\$ 35,773,803	\$ 6,852,147	\$ 4,214,877	\$ 46,840,827

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

PAWS CHICAGOSTATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services							Supporting Services					Total
	Rescue and Recovery	Spay/Neuter Clinic	Adoption Centers	Community Outreach	Volunteer Program	Community Development	Total Program Services	Management And General	Special Events	Fund Raising	Total Supporting Services		
EXPENSES													
Compensation	\$ 1,890,663	\$ 761,684	\$ 840,549	\$ 262,516	\$ 222,902	\$ 320,992	\$ 4,299,306	\$ 380,757	\$ 199,969	\$ 27,553	\$ 608,279	\$ 4,907,585	
Benefits and taxes	268,383	153,200	129,569	27,736	34,360	42,292	655,540	58,693	30,825	4,247	93,765	749,305	
Animal care supplies	352,742	18,841	7,490	951	52	-	380,076	-	-	-	-	380,076	
Medical supplies	539,729	171,860	540	78,822	-	-	790,951	-	-	-	-	790,951	
Merchandise cost	1,641	173	3,254	63	1,491	4,578	11,200	-	161,543	140	161,683	172,883	
Professional fees	132,504	38,883	58,317	14,123	16,484	119,743	380,054	87,101	61,984	197,180	346,265	726,319	
Office supplies	89,635	21,526	54,958	7,832	26,410	5,661	206,022	22,814	258,727	1,450	282,991	489,013	
Advertising	795	267	5,146	37	134	5,014	11,393	423	6,713	798	7,934	19,327	
Event catering and food	796	192	1,071	118	7,808	5,519	15,504	146	522,582	2,409	525,137	540,641	
Bad debt expense	2,153	-	15,000	-	-	-	17,153	-	18,750	-	18,750	35,903	
Dues and subscriptions	429	356	694	6	42	167	1,694	506	174	46	726	2,420	
Conferences and seminars	4,509	4,808	19	1	-	68	9,405	1,484	148	104	1,736	11,141	
Depreciation	37,006	126,027	255,119	3,583	4,239	25,250	451,224	39,066	23,921	2,658	65,645	516,869	
Insurance expense	19,399	5,790	8,280	6,903	4,565	2,976	47,913	4,075	3,152	544	7,771	55,684	
Technology expense	98,312	32,309	107,879	3,640	12,513	41,799	296,452	94,798	32,473	31,916	159,187	455,639	
Printing and production	69,954	18,892	19,513	8,379	4,380	114,663	235,781	10,314	37,152	82,302	129,768	365,549	
Postage	33,132	21,016	28,674	16,458	3,391	48,687	151,358	2,145	8,512	83,460	94,117	245,475	
Repairs and maintenance	28,838	20,338	42,107	4,499	1,706	3,146	100,634	6,005	2,973	330	9,308	109,942	
Telephone and internet	28,207	9,328	50,944	3,896	717	2,333	95,425	6,413	4,366	730	11,509	106,934	
Travel, meals and auto	34,621	1,042	3,163	4,129	6,371	6,495	55,821	2,924	6,408	3,200	12,532	68,353	
Occupancy	57,156	36,165	72,315	10,008	2,619	3,377	181,640	5,938	3,531	755	10,224	191,864	
Training reimbursement	-	-	58,275	-	-	-	58,275	-	-	-	-	58,275	
Rental fees	908	284	5,965	2,950	227	2,389	12,723	1,233	232,187	360	233,780	246,503	
Total expenses	\$ 3,691,512	\$ 1,442,981	\$ 1,768,841	\$ 456,650	\$ 350,411	\$ 755,149	\$ 8,465,544	\$ 724,835	\$ 1,616,090	\$ 440,182	\$ 2,781,107	\$ 11,246,651	

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

PAWS CHICAGO

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services									Supporting Services				Total
	Rescue and Recovery	Spay/Neuter Clinic	Adoption Centers	Community Outreach	Training Center	Training Internal	Volunteer Program	Community Development	Total Program Services	Management And General	Special Events	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	\$ 294,641	\$ 285,267	\$ 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	29,497	42,797	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	212,622	7,995	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	73,270	93,310	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	3,862	770,947	4,039	778,848	823,071
Marketing expense	-	304	1,676	-	-	-	-	24,972	26,952	228	19,522	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	1,313	26	1,706	3,045	4,077
Conferences and seminars	2,863	6,148	1,096	-	-	-	702	1,854	12,663	9,614	1,032	747	11,393	24,056
Depreciation	59,836	112,806	257,686	10,432	40,502	-	5,004	-	486,266	6,318	28,472	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	69,162	107,231	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	2,847	38,647	131,694	173,188	433,486
Postage	16,100	314	148	50,642	-	-	22	89,667	156,893	8,205	16,109	102,656	126,970	283,863
Repairs and maintenance	24,042	36,230	47,168	6,290	4,628	-	521	-	118,879	3,590	2,944	652	7,186	126,065
Telephone and internet	17,885	13,748	33,703	2,380	633	-	7,283	-	75,632	(4,442)	1,583	633	(2,226)	73,406
Travel, meals and auto	6,833	4,138	3,472	11,876	-	-	1,667	84	28,070	3,491	2,753	278	6,522	34,592
Occupancy	54,990	66,594	66,768	1,510	6,116	244	750	-	196,972	1,446	4,405	1,316	7,167	204,139
Training reimbursement	-	-	52,100	-	-	-	-	-	52,100	-	-	-	-	52,100
Rental fees	-	6,582	3,319	-	-	-	-	1,521	11,422	1,455	82,129	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	\$ 733,215	\$ 1,506,434	\$ 550,472	\$ 2,790,121	\$ 12,342,175

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

PAWS CHICAGO

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,511,107	\$ 2,032,824
Cash received from contributors	10,584,315	12,881,651
Investment income received	1,194,814	626,128
Cash paid to employees and suppliers	<u>(10,023,106)</u>	<u>(11,404,164)</u>
Net cash provided by operating activities	<u>3,267,130</u>	<u>4,136,439</u>
Cash flows from investing activities:		
Purchases of investment securities	(14,020,954)	(6,587,941)
Sale of investment securities	9,675,056	1,540,260
Proceeds on sale of equipment	1,000	-
Purchases of property and equipment	<u>(640,275)</u>	<u>(137,106)</u>
Net cash used in investing activities	<u>(4,985,173)</u>	<u>(5,184,787)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	<u>1,719,419</u>	<u>1,048,581</u>
Increase in cash	1,376	233
Cash at beginning of year	<u>3,488,614</u>	<u>3,488,381</u>
Cash at end of year	<u>\$ 3,489,990</u>	<u>\$ 3,488,614</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	<u>\$ 10,893,772</u>	<u>\$ 6,779,184</u>
Adjustments:		
Net appreciation in investments	(3,842,550)	(1,319,346)
Depreciation	516,869	527,160
Provision for doubtful pledges	17,223	(24,356)
Gain on sale of equipment	(223)	-
Contributions restricted for long-term purposes	(1,719,419)	(1,048,581)
Contributed investments received	(1,732,915)	(1,180,682)
(Increase) decrease in:		
Unconditional promises to give	(303,833)	718,455
Accounts receivable	(643,809)	(236,350)
Inventories	26,522	586
Prepaid expenses	(114,291)	(57,536)
Accrued interest and dividends	-	20,903
Increase (decrease) in:		
Accounts payable	165,230	(66,121)
Accrued expenses	(6,973)	(73,502)
Deferred revenue	11,527	96,625
Total adjustments	<u>(7,626,642)</u>	<u>(2,642,745)</u>
Net cash provided by operating activities	<u>\$ 3,267,130</u>	<u>\$ 4,136,439</u>
Supplemental disclosure of non-cash operating and financing activities:		
In-kind contributions	<u>\$ 618,965</u>	<u>\$ 631,780</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 has created and put into action a comprehensive No Kill Model to fulfill the organization's mission of building No Kill communities, starting with a No Kill Chicago; ending pet overpopulation; and transforming animal welfare by setting higher standards. Since the organization's founding in 1997, the number of pets killed each year in Chicago has been reduced by more than 87 percent. The foundation of the No Kill Model is community engagement. By raising awareness about pet homelessness and engaging people in lifesaving efforts, PAWS Chicago makes lasting change for animals. PAWS Chicago's mission-critical programs - the 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. PAWS Chicago performed 16,237 spay/neuter surgeries in 2017. Increasing spay/neuter outreach and meeting people who would never know about PAWS Chicago's support and resources is the key objective of the PAWS for Life outreach efforts. The primary 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 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 the 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 2017, PAWS performed 2,362 spay/neuter surgeries on feral cats. These prevention efforts are critical to ending the killing of homeless pets, with the achievement of an 87 percent reduction in killing since 1997 resulting from fewer pets entering shelters.

Adoption:

Rescuing homeless pets and uniting them with their new families is at the forefront of what PAWS Chicago does on a daily basis. Through PAWS Chicago's adoption centers, offsite events and innovative programming, 5,371 animals found loving homes in 2017. 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, located inside the Highland Park Petco, was responsible for 395 adoptions in 2017. PAWS also holds innovative on-site adoption events like Spring and Holiday Adopt-a-Thons to raise awareness and bring in the community, resulting in more lives saved. In addition, through off-site adoption events in Chicago and various suburban locations, the organization brings adoptable animals to high-traffic shopping centers and retail stores where people will stop, play with the animals and think about adopting.

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 expert veterinary and behavior teams, PAWS Chicago is one of the few shelters in the country that can treat and rehabilitate a large volume of sick, injured and behaviorally challenged animals. In 2017, PAWS Chicago had a **98.48** 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. The organization has cultivated a robust foster network for pets receiving more simple treatment. The PAWS Training & Foster Care Center is home to an innovative dog training and enrichment programming and a hub to expand geographic reach to new foster families. Through this center, a team of behavior professionals and trained volunteers provide homeless dogs with one-on-one and group training, agility and enrichment. Expanding the Medical Center: As the animal welfare movement continues to grow in Chicago, healthy animals are being saved in record numbers at the city pound, which means the population of animals in need of rescue increasingly tends to be special medical cases, with animals requiring enhanced resources to treat. To save more lives, PAWS Chicago is launching a major expansion of its Medical Center and shelter medicine program to increase 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 2017, volunteers dedicated 141,075 hours of service, fulfilling the work of 67 full time employees. And this doesn't include foster families who took in and cared for animals in need. In 2017, 2,667 animals were placed in foster care. In addition to the time they commit to PAWS Chicago, volunteers are also 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 PAWS Chicago's programs are built. Shining a light on pet homelessness - and the resultant killing - has mobilized thousands of people to get involved in the cause by adopting, volunteering, fostering, advocating for and donating to homeless pets. The organization continued to raise awareness by working with the media to promote the cause of homeless pets, as well as through its web site, social media and PAWS Chicago Magazine, which has the largest circulation of any Chicago magazine publication. Through its No Kill model in action, PAWS Chicago is leading a movement, creating a community and preparing the foundation to be able to share learnings on a national basis. Every year, PAWS Chicago welcome shelters, rescue groups and individuals from around the country to shadow its operations. PAWS Chicago helps start-up adoption groups and spay/neuter clinics around the world. In Chicago, the organization 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 Angels with Tails adoption events.

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.

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 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 net realizable value.

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.

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

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

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

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 \$19,326 and \$8,953 for the years ended December 31, 2017 and 2016, 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 2017 or 2016. The Organization's federal Forms 990 and 990-T for 2017, 2016, and 2015 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 September 18, 2018, 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.

Recently Issued Accounting Standards Not Yet Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-4, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which significantly amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. The issuance of ASU 2016-14 is the first phase of an FASB project with the broad objective of reexamining the standards for financial statement presentation by nonprofit organizations.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

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

Recently Issued Accounting Standards Not Yet Adopted (Continued)

ASU 2016-14 makes various amendments to the standards in FASB Topic 958. Following are the most significant changes to the standards:

- Only two classes of net assets will be reported in the statement of financial position.
- Additional disclosures about endowment funds will be required.
- Investment returns will be reported net of external and direct internal investment expenses.
- The release of restrictions on donor-restricted capital gifts will be recognized when the assets are placed in service.
- Disclosures will be enhanced about net assets with donor restrictions and designations of net assets made by the governing board.
- Nonprofit organizations will be required to provide qualitative and quantitative information about the organization's liquidity and the availability of its resources to fund general expenditures.

The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The adoption of this ASU is expected to have a significant impact on the presentation of the Organization's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires leases to recognize a right-of-use asset and related lease liability for all leases, with limited exception for short-term leases. The new lease guidance will be effective for the year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

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>2017</u>	<u>2016</u>
Money market	\$ 1,221,849	\$ 3,113,619
Mutual funds		
Balanced	1,392,412	914,588
Emerging markets	2,119,940	429,360
Fixed income	7,870,517	6,043,472
Global equity	2,042,683	1,683,433
International equity	4,858,774	2,306,855
Large Cap Blend	2,698,001	1,141,870
Large Cap Growth	5,054,314	3,400,236
Large Cap Value	2,404,207	857,698
Mid Cap Blend	800,302	544,430
Mid Cap Value	-	681,726
Other	2,236,597	1,568,836
Real Estate	670,610	608,535
Small Cap	835,626	665,163
Stocks		
Conglomerates	359,641	651,276
Consumer Discretionary	71	2,303
Consumer staples	-	2,167
Energy	342,924	423,443
Financial	1,152,284	932,455
Healthcare	172,888	215,118
Industrials	318,183	2,532
Information technology	2,574,965	2,466,915
Other	24,102	23,862
Telecommunications	-	534,812
Utilities	90,350	105,172
	<u>\$39,241,240</u>	<u>\$29,319,876</u>

During the year ended December 31, 2017 and 2016 the Organization's investments (including investments bought, sold, as well as held during the period) appreciated in fair value by \$3,842,550 and \$1,319,346 respectively.

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.

The fair value of the Organization's investments is determined by Level 1 measurements. 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, 2017 and 2016.

Mutual Funds: Valued at the daily closing price as reported by the Fund. Mutual funds held by the Organization are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Money Market: Based on quoted market prices of shares held by the Organization at year-end.

Stocks: Valued at closing price reported on the active market on which the individual securities are traded.

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, 2017 and 2016.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 3 – Unconditional Promises to Give (Continued)

Unconditional promises to give include the following:

	<u>2017</u>	<u>2016</u>
Promises to give beginning of year	\$2,261,712	\$2,961,220
Amount pledged during the year	980,000	290,000
Amount collected during the year	(715,357)	(942,650)
Pledges written off	<u>(17,222)</u>	<u>(46,858)</u>
Promises to give end of year	2,509,133	2,261,712
Less:		
Discounts to present value	(198,333)	(237,522)
Allowance for doubtful promises	<u>(20,000)</u>	<u>(20,000)</u>
Net promises to give	<u>\$2,290,800</u>	<u>\$2,004,190</u>

Promises to give expected to be collected in:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 890,983	\$ 593,947
One to five years	1,383,384	1,318,000
More than five years	<u>234,766</u>	<u>349,765</u>
	<u>\$2,509,133</u>	<u>\$2,261,712</u>

Note 4 – Inventories

Inventories at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Merchandise	\$ 47,702	\$ 73,960
Medical supplies	<u>67,958</u>	<u>68,223</u>
	<u>\$115,660</u>	<u>\$142,183</u>

Note 5 – Property, Equipment, and Depreciation

Property and equipment at December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,874,619	\$ 3,514,619
Buildings	9,032,139	8,602,138
Furniture fixtures and improvements	1,576,683	1,205,909
Equipment	551,328	520,167
Computer equipment	472,972	470,696
Software	260,015	229,016
Vehicles	<u>456,526</u>	<u>434,232</u>
	16,224,282	14,976,777
Less accumulated depreciation	<u>4,254,466</u>	<u>3,741,820</u>
	11,969,816	11,234,957
Construction in progress	<u>177,770</u>	<u>790,000</u>
	<u>\$12,147,586</u>	<u>\$12,024,957</u>

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 5 – Property, Equipment, and Depreciation (Continued)

Depreciation expense for the years ended December 31, 2017 and 2016 was \$516,869 and \$527,160, respectively.

In 2015, the Organization purchased land and a building near the main adoption center. The build-out of the building was completed in 2017. The total cost at the completion of the project was approximately \$1,157,000.

During 2017, the Organization began a project to expand the Medical Center in order to increase the capacity of animals that the Organization can treat. The budgeted cost of the construction for the expansion of the Medical Center is \$3,500,000. The expansion of the Medical Center should be available for occupancy in late 2019.

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. There were no appropriations during the years 2017 and 2016.

Composition of and changes in board-designated endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Beginning designated balance	\$21,081,953	\$14,344,420
Contributions	1,204,762	737,533
Investment income	-	-
Net appreciation (depreciation) on investment of temporarily restricted funds	-	-
Current designation	4,800,000	6,000,000
Appropriated for expenditure	<u>-</u>	<u>-</u>
Ending designated balance	<u>\$27,086,715</u>	<u>\$21,081,953</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.

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 6 – Net Assets (Continued)

Donor-restricted Endowment (continued)

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.

Endowment Net Assets

Endowment net asset composition by type of fund as of December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
<i>December 31, 2017</i>			
Endowment Funds:			
Donor-restricted	\$ -	\$5,934,296	\$ 5,934,296
Board-designated	<u>27,086,715</u>	<u>-</u>	<u>27,086,715</u>
	<u>\$27,086,715</u>	<u>\$5,934,296</u>	<u>\$33,021,011</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>

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 6 – Net Assets (Continued)

Changes in endowment net assets as of December 31, 2017 and 2016 are as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Assets
<i>December 31, 2017</i>			
Endowment Funds:			
Beginning of year	\$21,081,953	\$4,214,877	\$25,296,830
Contributions	1,204,762	1,719,419	2,924,181
Investment income	-	-	-
Current designation	4,800,000	-	4,800,000
Appropriated for expenditure	-	-	-
End of year	<u>\$27,086,715</u>	<u>\$5,934,296</u>	<u>\$33,021,011</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	-	-	-
End of year	<u>\$21,081,953</u>	<u>\$4,214,877</u>	<u>\$25,296,830</u>

Temporarily Restricted Net Assets

Following is a summary of the activity in temporarily restricted net assets for the years ended December 31, 2017 and 2016:

	2017			
	Beginning Balance	Additions	Assets Released	Ending Balance
Adoption program	\$1,346,477	\$ 60,000	\$ 60,000	\$1,346,477
GUS Mobile	440,425	-	18,098	422,327
Sick and Injured / Shelter Medicine	1,002,809	16,967	126,292	893,484
Spay/Neuter Clinic	20,480	169,701	157,794	32,387
Strategic initiatives growth fund	3,830,591	1,944,519	439,476	5,335,634
Other timing restrictions	<u>211,365</u>	<u>547,277</u>	<u>399,341</u>	<u>359,301</u>
	<u>\$6,852,147</u>	<u>\$2,738,464</u>	<u>\$1,201,001</u>	<u>\$8,389,610</u>
	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	<u>83,376</u>	<u>191,365</u>	<u>63,376</u>	<u>211,365</u>
	<u>\$3,791,852</u>	<u>\$3,612,020</u>	<u>\$551,725</u>	<u>\$6,852,147</u>

PAWS CHICAGONOTES TO FINANCIAL STATEMENTS

Note 6 – Net Assets (Continued)

Permanently Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Free spay/neuter program	\$1,231,296	\$1,231,296
Lincoln Park Adoption Center	3,593,000	2,013,581
Medical assistance for dogs with treatable illness	500,000	500,000
Medical Center Campaign Fund Endowment	105,000	-
Medical treatment of animals under 6 months old	180,000	180,000
General endowment	<u>325,000</u>	<u>290,000</u>
	<u>\$5,934,296</u>	<u>\$4,214,877</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

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 2017 or 2016.

Note 9 – Concentrations

Cash

The Organization maintains cash balances with two banks. Amounts at one of the financial institutions exceed the amount insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in these accounts. Management believes the Organization is not exposed to any significant credit risk on cash accounts.

Contribution Revenue

For the year ended December 31, 2017 one major contributor accounted for 11% of total contribution revenue to the Organization. For the year ended December 31, 2016, contributions from two contributors accounted for 28% 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.