PAWS CHICAGO

FINANCIAL REPORT

DECEMBER 31, 2018 AND 2017

BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Other Matter

As described in Note 1, the Company adopted Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities* during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Bansley and Kiener, L.L.P.

Certified Public Accountants

October 17, 2019

PAWS CHICAGO

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

A S S E T S	2018	2017
Cash	$ 3,951,166	$ 3,489,990
Investments, at fair value	40,831,633	39,241,240
Unconditional promises to give, net	2,147,003	2,290,800
Accounts receivable	381,244	1,012,271
Inventories	90,615	115,660
Prepaid expenses	334,639	330,394
Accrued interest and dividends	-	-
Property and equipment, net	12,455,598	12,147,586
Total assets	$ 60,191,898	$ 58,627,941

LIABILITIES AND NET ASSETS	2018	2017
Accounts payable	$ 330,313	$ 487,463
Accrued expenses	300,962	237,221
Deferred revenue	206,505	168,658
Total liabilities	837,780	893,342
Net assets		
Without donor restrictions	42,480,547	43,410,693
With donor restrictions	16,873,571	14,323,906
Total net assets	59,354,118	57,734,599
Total liabilities and net assets	$ 60,191,898	$ 58,627,941

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

PAWS CHICAGO

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

2018

	WITHOUT DONOR RESTRICTIONS			WITH DONOR RESTRICTIONS			
	Operations	Board Designated	Total	Purpose Restricted	Perpetual In Nature	Total	Total
REVENUE							
Program service fees:							
Adoption centers	$ 1,019,474	$ -	$ 1,019,474	$ -	$ -	$ -	$ 1,019,474
Admission centers	655	-	655	-	-	-	655
Spay/neuter clinic	817,301	-	817,301	-	-	-	817,301
Training center	159,704	-	159,704	-	-	-	159,704
Contributions	7,381,102	609,430	7,990,532	1,372,294	2,446,078	3,818,372	11,808,904
Contributions - in kind	919,572	-	919,572	-	-	-	919,572
Investment income	1,637,804	-	1,637,804	-	-	-	1,637,804
Net gain (loss) on investments	(5,417,886)	-	(5,417,886)	-	-	-	(5,417,886)
Special events	3,448,389	-	3,448,389	-	-	-	3,448,389
Other income	104,709	-	104,709	-	-	-	104,709
Net assets released from restrictions	1,268,707	-	1,268,707	(1,268,707)	-	(1,268,707)	-
Total revenue	11,339,531	609,430	11,948,961	103,587	2,446,078	2,549,665	14,498,626
EXPENSES							
Program services:							
Rescue and recovery center	4,206,093	-	4,206,093	-	-	-	4,206,093
Spay/neuter clinic	1,703,850	-	1,703,850	-	-	-	1,703,850
Adoption centers	2,051,669	-	2,051,669	-	-	-	2,051,669
Community outreach	566,146	-	566,146	-	-	-	566,146
Volunteer program	387,048	-	387,048	-	-	-	387,048
Community development	848,288	-	848,288	-	-	-	848,288
	9,763,094	-	9,763,094	-	-	-	9,763,094
Supporting services:							
Management and general	804,814	-	804,814	-	-	-	804,814
Special events	1,787,515	-	1,787,515	-	-	-	1,787,515
Fundraising	523,684	-	523,684	-	-	-	523,684
	3,116,013	-	3,116,013	-	-	-	3,116,013
Total expenses	12,879,107	-	12,879,107	-	-	-	12,879,107
Change in net assets	(1,539,576)	609,430	(930,146)	103,587	2,446,078	2,549,665	1,619,519
Net assets at beginning of year	16,323,978	27,086,715	43,410,693	8,389,610	5,934,296	14,323,906	57,734,599
Designation of net assets	(2,000,000)	2,000,000	-	-	-	-	-
Net assets at end of year	$ 12,784,402	$ 29,696,145	$ 42,480,547	$ 8,493,197	$ 8,380,374	$ 16,873,571	$ 59,354,118

2017

	WITHOUT DONOR RESTRICTIONS			WITH DONOR RESTRICTIONS			
	Operations	Board Designated	Total	Purpose Restricted	Perpetual In Nature	Total	Total
REVENUE							
Program service fees:							
Adoption centers	$ 1,051,425	$ -	$ 1,051,425	$ -	$ -	$ -	$ 1,051,425
Admission centers	1,250	-	1,250	-	-	-	1,250
Spay/neuter clinic	867,056	-	867,056	-	-	-	867,056
Training center	151,343	-	151,343	-	-	-	151,343
Contributions	5,031,895	1,204,762	6,236,657	2,738,464	1,719,419	4,457,883	10,694,540
Contributions - in kind	618,965	-	618,965	-	-	-	618,965
Investment income	1,194,814	-	1,194,814	-	-	-	1,194,814
Net gain (loss) on investments	3,842,550	-	3,842,550	-	-	-	3,842,550
Special events	3,645,942	-	3,645,942	-	-	-	3,645,942
Other income	72,538	-	72,538	-	-	-	72,538
Net assets released from restrictions	1,201,001		1,201,001	(1,201,001)	-	(1,201,001)	-
Total revenue	17,678,779	1,204,762	18,883,541	1,537,463	1,719,419	3,256,882	22,140,423
EXPENSES							
Program services:							
Rescue and recovery center	3,691,512	-	3,691,512	-	-	-	3,691,512
Spay/neuter clinic	1,442,981	-	1,442,981	-	-	-	1,442,981
Adoption centers	1,768,841	-	1,768,841	-	-	-	1,768,841
Community outreach	456,650	-	456,650	-	-	-	456,650
Volunteer program	350,411	-	350,411	-	-	-	350,411
Community development	755,149	-	755,149	-	-	-	755,149
	8,465,544	-	8,465,544	-	-	-	8,465,544
Supporting services:							
Management and general	724,835	-	724,835	-	-	-	724,835
Special events	1,616,090	-	1,616,090	-	-	-	1,616,090
Fundraising	440,182	-	440,182	-	-	-	440,182
	2,781,107	-	2,781,107	-	-	-	2,781,107
Total expenses	11,246,651	-	11,246,651	-	-	-	11,246,651
Change in net assets	6,432,128	1,204,762	7,636,890	1,537,463	1,719,419	3,256,882	10,893,772
Net assets at beginning of year	14,691,850	21,081,953	35,773,803	6,852,147	4,214,877	11,067,024	46,840,827
Designation of net assets	(4,800,000)	4,800,000	-	-	-	-	-
Net assets at end of year	$ 16,323,978	$ 27,086,715	$ 43,410,693	$ 8,389,610	$ 5,934,296	$ 14,323,906	$ 57,734,599

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

PAWS CHICAGO

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services							Supporting Services				
	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	Total
EXPENSES												
Compensation	$ 2,082,847	$ 851,729	$ 848,095	$ 341,369	$ 245,854	$ 376,694	$ 4,746,588	$ 366,571	$ 214,670	$ 52,886	$ 634,127	$ 5,380,715
Benefits and taxes	285,380	157,830	124,972	41,427	43,737	55,651	708,997	56,142	30,228	7,752	94,122	803,119
Animal care supplies	561,388	18,462	3,058	3,018	48	320	586,294	-	160	-	160	586,454
Medical supplies	552,619	230,275	660	96,913	-	-	880,467	-	-	-	-	880,467
Merchandise cost	-	-	-	-	656	16,605	17,261	-	108,826	87	108,913	126,174
Professional fees	136,980	67,015	78,178	6,826	24,301	124,148	437,448	204,062	84,413	195,427	483,902	921,350
Office supplies	119,565	35,044	57,635	8,716	24,068	14,825	259,853	25,162	228,092	1,125	254,379	514,232
Advertising	-	-	3,940	-	-	1,750	5,690	-	1,832	1,750	3,582	9,272
Event catering and food	-	-	-	-	7,496	769	8,265	566	725,497	7,754	733,817	742,082
Bad debt expense	-	-	150,346	-	-	-	150,346	-	-	15,000	15,000	165,346
Dues and subscriptions	1,911	1,332	793	7	-	126	4,169	1,503	31	627	2,161	6,330
Conferences and seminars	4,100	3,469	124	316	-	34	8,043	11	-	-	11	8,054
Depreciation	53,107	131,758	291,325	12,391	5,278	24,763	518,622	38,754	23,460	2,607	64,821	583,443
Insurance expense	12,572	2,343	5,650	7,041	2,428	6,211	36,245	9,445	6,332	667	16,444	52,689
Technology expense	92,678	33,488	100,823	11,320	11,936	8,885	259,130	76,373	19,660	3,462	99,495	358,625
Printing and production	81,156	57,179	38,583	1,832	754	146,424	325,928	2,067	27,569	151,705	181,341	507,269
Postage	66,494	46,563	38,320	1,800	522	56,970	210,669	4,236	25,836	78,919	108,991	319,660
Repairs and maintenance	62,548	28,429	70,514	8,230	3,288	3,853	176,862	6,488	3,698	1,485	11,671	188,533
Telephone and internet	28,938	8,161	57,223	4,354	320	-	98,996	7,374	3,439	-	10,813	109,809
Travel, meals and auto	24,873	1,777	3,779	10,981	14,021	5,912	61,343	1,751	3,370	1,686	6,807	68,150
Occupancy	38,883	28,978	114,718	5,902	2,199	4,120	194,800	4,165	13,600	735	18,500	213,300
Training reimbursement	-	-	58,500	-	-	-	58,500	-	-	-	-	58,500
Rental fees	54	18	4,433	3,703	142	228	8,578	144	266,802	10	266,956	275,534
Total expenses	$ 4,206,093	$ 1,703,850	$ 2,051,669	$ 566,146	$ 387,048	$ 848,288	$ 9,763,094	$ 804,814	$ 1,787,515	$ 523,684	$ 3,116,013	$ 12,879,107

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

PAWS CHICAGO

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services							Supporting Services				
	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	Total
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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	$ 2,686,871	$ 1,511,107
Cash received from contributors	11,389,974	10,584,315
Investment income received	1,638,414	1,194,814
Cash paid to employees and suppliers	(11,315,466)	(10,023,106)
Net cash provided by operating activities	4,399,793	3,267,130
Cash flows from investing activities:		
Purchases of investment securities	(14,380,894)	(14,020,954)
Sale of investment securities	8,887,654	9,675,056
Proceeds on sale of equipment	-	1,000
Purchases of property and equipment	(891,455)	(640,275)
Net cash used in investing activities	(6,384,695)	(4,985,173)
Cash flows from financing activities:		
Contributions restricted for long-term purposes	2,446,078	1,719,419
Increase in cash	461,176	1,376
Cash at beginning of year	3,489,990	3,488,614
Cash at end of year	$ 3,951,166	$ 3,489,990
Supplemental disclosure of non-cash operating and financing activities:		
In-kind contributions	$ 919,572	$ 618,965
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 1,619,519	$ 10,893,772
Adjustments:		
Net (appreciation) depreciation in investments	5,417,886	(3,842,550)
Depreciation	583,443	516,869
Provision for doubtful accounts	133,846	17,223
Gain on sale of equipment	-	(223)
Contributions restricted for long-term purposes	(2,446,078)	(1,719,419)
Contributed investments received	(1,515,039)	(1,732,915)
(Increase) decrease in:		
Unconditional promises to give	93,797	(303,833)
Accounts receivable	547,181	(643,809)
Inventories	25,045	26,522
Prepaid expenses	(4,855)	(114,291)
Accrued interest and dividends	610	-
Increase (decrease) in:		
Accounts payable	(157,150)	165,230
Accrued expenses	63,741	(6,973)
Deferred revenue	37,847	11,527
Total adjustments	2,780,274	(7,626,642)
Net cash provided by operating activities	$ 4,399,793	$ 3,267,130

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 comprehensive No Kill Model is at work, fulfilling the Organization's mission of building No Kill communities, ending pet overpopulation and transforming animal welfare by setting higher standards. Since PAWS Chicago's founding in 1997, the number of pets killed each year in Chicago has been reduced by more than 91 percent.

The foundation of the No Kill Model is community engagement.

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. In 1997, the mass killing of homeless pets was a hidden crisis. The public had no idea more than 42,000 homeless cats and dogs would be euthanized in the city of Chicago that year. PAWS Chicago was founded to bring attention to the plight of these vulnerable animals and to mobilize community support to develop humane solutions.

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 continues to raise awareness by working with the media to promote the cause of homeless pets, and generates engagement 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 what we have learned 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 helps 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.

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: The Spay/Neuter Solution

Preventing unwanted pets from being born is key to building a No Kill Chicago. A single female cat and her offspring can theoretically produce 420,000 kittens in seven years. For dogs, the number is 96,000. Spay/neuter surgeries are the solution, and as such, are at the core of PAWS prevention initiatives.

PAWS Chicago performed 16,750 spay/neuter surgeries in 2018. 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 offers spay/neuter services where they are needed most.

The PAWS for Life Outreach program goes door-to-door, helping people in Chicago's most underserved communities. The primary neighborhood of focus is Englewood, where more than 49 percent of the population lives below the poverty line. In 2018, PAWS for Life also added the Back of the Yards community. By increasing spay/neuter outreach and meeting people who would never know about PAWS Chicago's support and resources, the number of stray and unwanted pets has dramatically declined. PAWS achieved spay/neuter conversion rate of 83 percent of all unaltered pets met through this program.

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

Nature of Activities (Continued)

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 2018, PAWS performed 2,914 spay/neuter surgeries on feral cats. These prevention efforts are critical to ending the killing of homeless pets, with the achievement of a 91 percent reduction in killing since 1997. Two-thirds of this reduction is the result of fewer pets entering shelters.

Adoption

Rescuing homeless pets and uniting them with their new families is at the forefront of what PAWS Chicago does daily. Through PAWS Chicago's adoption centers, offsite events and innovative programming, 5,591 animals found loving homes in 2018.

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 a Petco in the Chicago suburb of Highland Park, was responsible for 426 adoptions in 2018.

Critical to adoption is raising awareness and bringing in the community. PAWS hosts innovative on-site adoption events, like a multi-day adopt-a-thon in the spring and fall, to raise awareness and bring in the community, resulting in more lives saved. In addition, through off-site adoption events in communities across Chicagoland, PAWS brings adoptable animals to high-traffic shopping centers and retail stores where people will stop, play with the animals and think about adopting.

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 are two of the most critical elements of No Kill. Due to our 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 2018, PAWS Chicago had a **98.12** 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—with a world class veterinary team treats the most serious cases on site. A robust foster network cares for pets when they are stable and ready to recover in a home environment. 3,325 animals went into foster care in 2018.

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 requires more significant medical 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. The completed Medical Center will triple the number of isolation suites – from 30 to 90 – and will be the largest homeless pet hospital in the nation.

The PAWS Training Center is home to an innovative dog training and enrichment programming. Through this Center, a team of behavior professionals and trained volunteers provide abused, neglected and under socialized homeless dogs with one-on-one and group training, agility and enrichment.

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

Nature of Activities (Continued)

Volunteers

Volunteers are the life-force behind PAWS Chicago's operations and an essential ingredient to building a No Kill Chicago. In 2018, volunteers dedicated 143,933 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 2018, 3,325 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.

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.

Recognition of Donor Restrictions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, the donation is reclassified to net assets without restrictions.

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.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

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

Inventories

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

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment returns are presented net of investment expenses.

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 contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the restriction is considered to have expired when the assets are placed in service. The Organization reclassifies the net assets with donor restrictions to net assets without donor restrictions at that time. 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:

	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.

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

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

Advertising

The Organization recognizes advertising expenditures as an expense as they are incurred. Advertising expense totaled $9,272 and $19,326 for the years ended December 31, 2018 and 2017, 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 2018 or 2017. The Organization's federal Forms 990 and 990-T for 2018, 2017, and 2016 are subject to examination by the Internal Revenue Service, generally for three years after they are filed. In addition, the Organization's state Forms AG990-IL and IL990-T are subject to examination by the state tax authority for similar years.

Evaluation of Subsequent Events

Management has evaluated subsequent events through October 17, 2019, 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.

New Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which significantly amended the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. Management evaluated and determined their appropriate classification in accordance with ASU 2016-14 based upon the different types of donor-imposed restrictions and self-imposed limits by the actions of the governing board. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented.

The new standards changed the following aspects of the Organization's financial statements:

- Only two classes of net assets are reported in the statement of financial position.
- Unrestricted net assets have been renamed net assets without donor restrictions and include board designated net assets.
- Temporarily and permanently restricted net assets have been renamed net assets with donor restrictions.
- Additional disclosures about endowment funds are required.
- The release of restrictions on donor-restricted capital gifts are recognized when the assets are placed in service.
- Disclosures have been enhanced about net assets with donor restrictions and designations of net assets made by the governing board.
- The financial statements include new qualitative and quantitative information about the organization's liquidity and the availability of its resources to fund general expenditures.

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

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

Recently Issued Accounting Standards Not Yet Adopted

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, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

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:

	2018	2017
Money market	$ 2,734,619	$ 1,221,849
Mutual funds:		
Balanced	1,329,109	1,392,412
Emerging markets	2,211,286	2,119,940
Fixed income	6,870,297	7,870,517
Global equity	1,613,071	2,042,683
International equity	4,373,346	4,858,774
Large Cap Blend	2,650,944	2,698,001
Large Cap Growth	5,235,522	5,054,314
Large Cap Value	3,423,625	2,404,207
Mid Cap Blend	949,531	800,302
Other	2,543,505	2,236,597
Real Estate	727,657	670,610
Small Cap	1,060,068	835,626
Stocks:		
Conglomerates	156,868	359,641
Consumer Discretionary	-	71
Energy	279,579	342,924
Financial	920,108	1,152,284
Healthcare	224,946	172,888
Industrials	813,704	318,183
Information technology	2,634,449	2,574,965
Other	2,499	24,102
Utilities	76,900	90,350
	$40,831,633	$39,241,240

During the year ended December 31, 2018 and 2017 the Organization's investments (including investments bought, sold, as well as held during the period) appreciated (depreciated) in fair value by $(5,417,886) and $3,842,550, respectively.

Note 2 – Investments (Continued)

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.

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, 2018 and 2017.

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.

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

Note 3 – Unconditional Promises to Give

Unconditional promises to give have been received in support of the spay/neuter clinic, the adoption center, and the endowment fund. 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, 2018 and 2017.

Unconditional promises to give include the following:

	2018	2017
Promises to give beginning of year	$ 2,509,133	$2,261,712
Amount pledged during the year	940,000	980,000
Amount collected during the year	(1,017,174)	(715,357)
Pledges written off	(31,500)	(17,222)
Promises to give end of year	2,400,459	2,509,133
Less:		
Discounts to present value	(183,456)	(198,333)
Allowance for doubtful promises	(70,000)	(20,000)
Net promises to give	$ 2,147,003	$2,290,800

Promises to give expected to be collected in:

	2018	2017
Less than one year	$ 825,754	$ 890,983
One to five years	1,399,705	1,383,384
More than five years	175,000	234,766
	$2,400,459	$2,509,133

Note 4 – Inventories

Inventories at December 31, 2018 and 2017 consist of the following:

	2018	2017
Merchandise	$ 33,393	$ 47,702
Medical supplies	57,222	67,958
	$ 90,615	$115,660

Note 5 – Property, Equipment, and Depreciation

Property and equipment at December 31, 2018 and 2017 consists of the following:

	2018	2017
Land	$ 3,874,619	$ 3,874,619
Buildings	9,194,107	9,032,139
Furniture fixtures and improvements	1,717,514	1,576,683
Equipment	571,582	551,328
Computer equipment	479,455	472,972
Software	283,233	260,015
Vehicles	511,732	456,526
	16,632,242	16,224,282
Less accumulated depreciation	4,837,909	4,254,466
	11,794,333	11,969,816
Construction in progress	661,265	177,770
	$12,455,598	$12,147,586

Depreciation expense for the years ended December 31, 2018 and 2017 was $583,443 and $516,869, respectively.

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 $7,600,000. The expansion of the Medical Center should be available for occupancy in April 2020.

Note 6 – Net Assets Without Donor Restrictions

Board-Designated Endowment

The Board of Directors has designated a portion of net assets without donor restrictions 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 net assets without donor restrictions. 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 2018 and 2017.

Composition of and changes in board-designated endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Beginning designated balance	$27,086,715	$21,081,953
Contributions	609,430	1,204,762
Investment income	-	-
Net appreciation (depreciation) on investments	-	-
Current designation	2,000,000	4,800,000
Appropriated for expenditure	-	-
Ending designated balance	$29,696,145	$27,086,715

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

Note 7 – Net Assets With Donor Restrictions

The Organization is subject to the State Prudent Management of Institutional Funds (SPMIFA) and, therefore, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board appropriates amounts for expenditure and any purpose restrictions have been met. The Board of Directors of the Organization has interpreted SPMIFA as requiring the maintenance of only the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, the Organization would consider the fund to be under water if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the applicable donor gift instrument. The Organization has interpreted SPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. The funds are not currently underwater.

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 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.

The Organization has adopted investment and spending policies that 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. The Organization appropriates for expenditure all of the investment income of the funds. This is consistent with the objective to provide income for its programs, preserve endowment assets without subjecting them to substantial risk, and provide additional real growth through new gifts.

Changes in net assets with donor restrictions as of December 31, 2018 and 2017 are as follows:

	Perpetual In Nature	Purpose Restricted	Total
December 31, 2018			
Endowment Funds:			
Beginning of year	$5,934,296	$ 8,389,610	$ 14,323,906
Contributions	2,446,078	1,372,294	3,818,372
Investment income	-	-	-
Appropriated for expenditure	-	(1,268,707)	(1,268,707)
End of year	$8,380,374	$ 8,493,197	$ 16,873,571
December 31, 2017			
Endowment Funds:			
Beginning of year	$4,214,877	$ 6,852,147	$ 11,067,024
Contributions	1,719,419	2,738,464	4,457,883
Investment income	-	-	-
Appropriated for expenditure	-	(1,201,001)	(1,201,001)
End of year	$5,934,296	$ 8,389,610	$ 14,323,906

Note 7 – Net Assets (Continued)

Donor-restricted - Perpetual in Nature

The Organization's net assets with donor restrictions include seven donor-restricted endowment funds. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal of the gift to be held and invested by the Organization indefinitely, and income from the fund is to be expended for program services. 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.

Following is a summary of funds that have restrictions that are perpetual in nature as of December 31:

	2018	2017
Free spay/neuter program	$1,231,296	$1,231,296
Lincoln Park Adoption Center	4,960,697	3,593,000
Medical assistance for dogs with treatable illness	500,000	500,000
Medical Center Campaign Fund Endowment	348,381	105,000
Medical treatment of animals under 6 months old	180,000	180,000
Medical treatment of kittens	800,000	-
General endowment	360,000	325,000
	$8,380,374	$5,934,296

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.

Donor-Restricted – Purpose Restricted

Following is a summary of the activity in purpose restricted net assets for the years ended December 31, 2018 and 2017:

	2018			
	Beginning Balance	Additions	Assets Released	Ending Balance
Adoption program	$1,346,477	$ 215,151	$ 15,151	$1,546,477
GUS Mobile	422,327	-	27,356	394,971
Sick and Injured / Shelter Medicine	893,484	22,750	122,750	793,484
Spay/Neuter Clinic	32,387	33,225	57,387	8,225
Strategic initiatives growth fund	5,335,634	425,487	562,698	5,198,423
Other timing restrictions	359,301	675,680	483,364	551,617
	$8,389,610	$1,372,293	$1,268,707	$8,493,197

	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	211,365	547,277	399,341	359,301
	$6,852,147	$2,738,464	$1,201,001	$8,389,610

PAWS CHICAGO

NOTES TO FINANCIAL STATEMENTS

Note 8 – Liquidity and Availability of Financial Assets

The following represents the Organization's financial assets available to meet the cash needs for general expenditures within one year of the date of the statement of financial position. Financial assets have been reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the financial position date. Due to the nature of restrictions from contributions received from donors, the Organization has omitted all restricted contributions.

	2018	2017
Total assets	$60,191,898	$58,627,941
Less nonfinancial assets:		
Prepaid expenses	334,639	330,394
Property and equipment, net	12,455,598	12,147,586
	12,790,237	12,477,980
Financial assets	47,401,661	46,149,961
Less assets not available for general expenditures within one year due to:		
Contractual or donor imposed restrictions:		
Restrictions that are perpetual in nature	8,380,374	5,934,296
Purpose restricted	7,000,000	7,000,000
Board designations set aside for liquidity needs that exceed one year	29,696,145	27,086,715
	45,076,519	40,021,011
Financial assets available to meet cash needs for general expenditures within one year	$ 2,325,142	$ 6,128,950

As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has board designated endowment as noted above. Although the Organization does not intend to spend from its board designated endowment, amounts could be made available if necessary.

Note 9 – Operating Leases

The Organization had 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 expired December 3, 2018. The annual base rent was $1 per year payable in advance. The lease was subject to various restrictions related to operating hours and animal care. It was not practical to estimate the fair value of the donated premises.

Note 10 – 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 2018 or 2017.

Note 11 – Concentrations

Cash

The Organization maintains cash balances with one bank (two in 2017). Amounts on deposit generally 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, 2018 one major contributor accounted for nearly 10% of total contribution revenue to the Organization. For the year ended December 31, 2017, contributions from one contributor accounted for 11% of the total contributions to the Organization.

Note 12 – 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. Allocations are based on a square footage basis or on estimates of time and effort.