

ANIMAL PROTECTIVE ASSOCIATION

FINANCIAL STATEMENTS

**For the Years Ended
December 31, 2018 and 2017**

ANIMAL PROTECTIVE ASSOCIATION

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors of
Animal Protective Association
Chicago, IL

We have audited the accompanying financial statements of Animal Protective Association (a nonprofit organization), 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 ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, Animal Protective Association adopted the Financial Accounting Standards Board's Accounting Standards update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Desmond & Ahern, Ltd

June 10, 2019
Chicago, IL

ANIMAL PROTECTIVE ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 6,617	\$ 18,748
Investments	5,471	5,277
Contributions receivable	31,129	9,883
Total current assets	<u>43,217</u>	<u>33,908</u>
Property and Equipment		
Land	1,768,415	1,768,415
Building and building improvements	3,660,265	3,660,265
Furniture and equipment	50,801	50,801
	<u>5,479,481</u>	<u>5,479,481</u>
Less accumulated depreciation	<u>(665,450)</u>	<u>(565,098)</u>
Net property and equipment	<u>4,814,031</u>	<u>4,914,383</u>
Total Assets	<u><u>\$ 4,857,248</u></u>	<u><u>\$ 4,948,291</u></u>
 <u>Liabilities and Net Assets</u>		
Accounts payable	<u>\$ 36,092</u>	<u>\$ 8,381</u>
Total liabilities	36,092	8,381
Net Assets without donor restrictions	<u>4,821,156</u>	<u>4,939,910</u>
Total Liabilities and Net Assets	<u><u>\$ 4,857,248</u></u>	<u><u>\$ 4,948,291</u></u>

See independent auditor's report and notes to financial statements.

ANIMAL PROTECTIVE ASSOCIATION
STATEMENTS OF ACTIVITIES
For the Years Ending December 31, 2018 and 2017

	2018	2017
<u>Public Support and Revenue</u>		
Contributions, grants and legacies		
General	\$ 220,604	\$ 176,088
Appeals	37,727	37,971
Total contributions, grants and legacies	<u>258,331</u>	<u>214,059</u>
Special events		
Contributions	33,655	33,038
Ticket and registration revenue	12,120	12,905
Auction income	5,693	6,560
Raffle income net of \$900 and \$600 of prizes	6,511	6,682
Less costs of direct benefits to donors	(520)	(540)
Net revenues from special events	<u>57,459</u>	<u>58,645</u>
Sales Revenue		
Sales	15,596	10,045
Less cost of goods sold	(1,651)	(1,679)
Net sales revenue	<u>13,945</u>	<u>8,366</u>
Program fees	12,400	12,800
Donated supplies and equipment	6,693	6,055
Investment income	454	337
Unrealized gain (loss) on investments	(248)	1,430
Total Public Support and Revenue	<u>349,034</u>	<u>301,692</u>
<u>Expenses</u>		
Program services	431,775	403,537
Management and general	14,825	14,452
Fundraising	21,188	27,873
Total Expenses	<u>467,788</u>	<u>445,862</u>
Change in net assets without donor restrictions	(118,754)	(144,170)
Net assets without donor restrictions		
Beginning of Year	<u>4,939,910</u>	<u>5,084,080</u>
End of Year	<u>\$ 4,821,156</u>	<u>\$ 4,939,910</u>

See independent auditor's report and notes to financial statements.

ANIMAL PROTECTIVE ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ending December 31, 2018

	2018			
	Program Services	Management and General	Fundraising	Total
<u>Functional Expenses</u>				
Salaries and wages	\$ 152,909	\$ 894	\$ -	\$ 153,803
Employee benefits and employment taxes	19,313	113	-	19,426
Total salary and employment expenses	172,222	1,007	-	173,229
Supplies	1,761	10	-	1,771
Donated supplies	6,693	-	-	6,693
Animal care and maintenance	40,756	-	-	40,756
Exam, surgery and treatment	51,891	-	-	51,891
Utilities	17,131	100	-	17,231
Telephone	4,244	25	-	4,269
Insurance	14,646	995	-	15,641
Repairs and maintenance	20,692	121	-	20,813
Postage and shipping	351	113	4,749	5,213
Printing	-	-	6,709	6,709
Professional fees	100	7,520	-	7,620
Special events	-	-	9,730	9,730
Advertising and promotion	870	45	-	915
Membership dues	649	-	-	649
Depreciation	99,769	583	-	100,352
Bank fees and credit card processing	-	4,306	-	4,306
Total Expenses	\$ 431,775	\$ 14,825	\$ 21,188	\$ 467,788

See independent auditor's report and notes to financial statements.

ANIMAL PROTECTIVE ASSOCIATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ending December 31, 2017

	2017			
	Program Services	Management and General	Fundraising	Total
<u>Functional Expenses</u>				
Salaries and wages	\$ 149,283	\$ 894	\$ -	\$ 150,177
Employee benefits and employment taxes	18,817	113	-	18,930
Total salary and employment expenses	168,100	1,007	-	169,107
Supplies	3,610	22	-	3,632
Donated supplies	6,055	-	-	6,055
Animal care and maintenance	32,681	-	-	32,681
Exam, surgery and treatment	47,246	-	-	47,246
Utilities	14,788	89	-	14,877
Telephone	4,013	24	-	4,037
Insurance	9,950	969	-	10,919
Repairs and maintenance	14,585	87	-	14,672
Postage and shipping	351	113	5,449	5,913
Printing	-	-	13,414	13,414
Professional fees	-	7,520	-	7,520
Special events	-	-	9,010	9,010
Advertising and promotion	792	45	-	837
Membership dues	315	-	-	315
Depreciation	101,051	605	-	101,656
Bank fees and credit card processing	-	3,971	-	3,971
Total Expenses	\$ 403,537	\$ 14,452	\$ 27,873	\$ 445,862

See independent auditor's report and notes to financial statements.

ANIMAL PROTECTIVE ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ending December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ (118,754)	\$ (144,170)
Adjustment to reconcile change in net assets to net cash used by operating activities		
Depreciation	100,352	101,656
Dividends Reinvested	(442)	-
Unrealized (gain) loss on investments	248	(1,430)
Increase in contributions receivable	(21,246)	(76)
Increase (decrease) in accounts payable	27,711	6,984
Net cash used by operating activities	<u>(12,131)</u>	<u>(37,036)</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from sale of investments	-	18,750
Purchase of fixed assets	<u>-</u>	<u>(5,676)</u>
Net cash provided by investing activities	<u>-</u>	<u>13,074</u>
Net decrease in cash and cash equivalents	(12,131)	(23,962)
Cash and cash equivalents beginning of year	18,748	42,710
Cash and cash equivalents, end of year	<u>\$ 6,617</u>	<u>\$ 18,748</u>

See independent auditor's report and notes to financial statements.

ANIMAL PROTECTIVE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

Association

Animal Protective Association (the Association) is a not-for-profit Illinois corporation exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Association is dedicated to promoting the welfare of cats and protecting them from cruelty by providing an adoption service and shelter, working towards the reduction of cat overpopulation, and educating the public about responsible cat care, including spay/neuter, safety, behavior, and health issues.

Description of Program Services

Services provided by the Association's Harmony House for Cats include emergency veterinary care and medication to sick and injured cats, initial and on-going veterinary care for shelter residents, spaying/neutering and adoption services, counseling to potential and current adopters, and provide shelter, supplies, food, care and housing for animals.

Income Tax Status

The Association was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The tax-exempt purpose of the Association and the nature in which it operates is described above. The Association continues to operate in compliance with its tax-exempt purpose. The Association's annual information and income tax returns filed with the federal and state governments are generally subject to examination for three years after filing.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant accounts receivable, accounts payable, and other liabilities in conformity with accounting principles applicable to non-profit organizations.

Basis of Presentation

The Association is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions, as required by Generally Accepted Accounting Principles. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Items that affect this net asset category principally consist of gifts without restrictions, including those designated by the Board, fees for service and related expenses associated with the core activities of the Association.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Association or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, endowment gifts, pledges, and

ANIMAL PROTECTIVE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

investment returns on endowment funds. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Association, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations.

At December 31, 2018 and 2017, there were no donor-imposed restrictions on net assets.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts. At times, balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) limit.

For purposes of reporting cash flows, the Association considers all liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are carried at fair value, which generally represents quoted market prices as of the last business day of the year. Realized and unrealized gains and losses are reflected in the statement of activities.

Property and Equipment

Expenditures for property and equipment over \$200, and items which substantially increase the useful lives of existing assets, are capitalized at cost. The Association provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

Buildings and improvements	20 - 39 years
Furniture and equipment	3 - 5 years

ANIMAL PROTECTIVE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Support and Revenue

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. During the years ending December 31, 2018 and 2017, the Association received no donations meeting this criteria.

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ending December 31, 2018 and 2017, the Association did not receive any donated services.

Furthermore, there are also a substantial number of invaluable volunteers who generously donate their time towards the activities of the Association, the value of which was not required to be disclosed in the financial statements.

In-Kind Contributions

In addition to receiving cash contributions, the Association receives in-kind contributions from various donors. It is the policy of the Association to record the estimated fair market value of certain in-kind contributions as an expense in its financial statements, and similarly increase donations by a like amount. For the years ending December 31, 2018 and 2017, the Association received \$6,693 and \$6,055 in donated supplies, respectively.

Functional Allocation of Expenses

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

Compensated Absences

Employees of the Association are entitled to paid vacation, sick and personal days off, depending on job classification, length of service and other factors. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

ANIMAL PROTECTIVE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Association has evaluated subsequent events through June 10, 2019, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed.

Not-for-Profit Financial Statement Presentation

During fiscal 2018, the Association adopted Accounting Standards Update (“ASU”) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows.

Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction of a net asset without donor restrictions where the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

No reclassification of 2017 net assets were necessary by the adoption of ASU No. 2016-14 by the Association as of December 31, 2018.

Note 2 – Financial Assets and Liquidity Resources

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets, at year-end:	
Cash and cash equivalents	\$ 6,617
Investments	5,471
Contributions receivable	31,129
Total financial assets, at year-end	<u>43,217</u>
Less:	
None available	<u>-</u>
Financial assets available to meet cash need for general expenditures within one year	<u>\$ 43,217</u>

ANIMAL PROTECTIVE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 2 – Financial Assets and Liquidity Resources (cont.)

The Association manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the future. During the year ended December 31, 2018 the level of liquidity and reserves was managed within the policy requirements.

Note 3 – Investments

Investments as of December 31, 2018 and 2017 consist of \$5,471 and \$5,277, respectively, in publicly-traded mutual funds.

Note 4 – Fair Value Measurements

Generally Accepted Accounting Principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. In determining fair value, the Association uses various valuation methods including the market, income, and cost approaches.

The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be readily observable, market corroborated, or generally unobservable inputs. Whenever possible, the Association attempts to utilize valuation methods that maximize the use of observable inputs and minimizes the use of unobservable inputs.

Based on the inputs used in the valuation methods, the Association is required to provide the following information according to the fair value hierarchy. The fair value ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

Assets and Liabilities Measured on a Recurring Basis at December 31,:

	Fair Value Measurements at December 31, 2018		
	Level 1	Level 2	Level 3
Mutual funds	\$ 5,471	\$ -	\$ -

ANIMAL PROTECTIVE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 4 – Fair Value Measurements (cont.)

	Fair Value Measurements at December 31, 2017		
	Level 1	Level 2	Level 3
Mutual funds	\$ 5,277	\$ -	\$ -

Note 5 – Contributions Receivable

Contributions receivable consist of amounts owed from various individual donors through Network for Good. At December 31, 2018 and 2017, the balance was \$31,129 and \$9,883, respectively. Management has determined that no allowance is deemed necessary.