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ANIMALS DESERVING OF PROPER TREATMENT

NAPERVILLE, ILLINOIS

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDING DECEMBER 31, 2016

ANIMALS DESERVING OF PROPER TREATMENT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Animals Deserving of Proper Treatment (ADOPT)
Naperville, Illinois

We have audited the accompanying financial statements of Animals Deserving of Proper Treatment (ADOPT) (a non-profit organization), which comprise the statement of financial position as of December 31, 2016, the related statements of activities, cash flows, and functional expenses for the year then ended, and the 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Organization'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 Organization'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 Animals Deserving of Proper Treatment (ADOPT) as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Animals Deserving of Proper Treatment's (ADOPT) financial statements for the year ended December 31, 2015, and our report dated July 15, 2016 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Milburn Cain & Co." in a cursive script.

MILBURN CAIN & CO.
Certified Public Accountants

Gurnee, Illinois
June 28, 2017

ANIMALS DESERVING OF PROPER TREATMENT

STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2016
(Compared With December 31, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 152,474	\$ 73,111
Investments	<u>101,208</u>	<u>182,863</u>
Total Current Assets	\$ 253,682	\$ 255,974
Property and Equipment, Net	<u>1,059,416</u>	<u>1,093,894</u>
Total Assets	\$ <u>1,313,098</u>	\$ <u>1,349,868</u>
 Liabilities and Net Assets		
Liabilities		
Accrued Expenses	\$ 22,313	\$ 24,267
Line of Credit	<u>49,984</u>	<u>---</u>
Total Liabilities	\$ <u>72,297</u>	\$ <u>24,267</u>
Net Assets		
Unrestricted	\$ <u>1,240,801</u>	\$ <u>1,325,601</u>
Total Liabilities and Net Assets	\$ <u>1,313,098</u>	\$ <u>1,349,868</u>

See accompanying Notes to Financial Statements.

ANIMALS DESERVING OF PROPER TREATMENT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016
(Compared With 2015 Totals)

	<u>2016</u>	<u>2015</u>
Revenue and Support		
Adoptions	\$ 113,615	\$ 113,760
Clinical	66,679	27,122
Direct Public Support	235,508	246,008
Membership	13,467	11,962
Memorials	6,231	7,380
Annual Appeal	59,386	25,155
Other Program Revenue	23,054	30,758
Investment Income (Loss)	<u>1,129</u>	<u>3,079</u>
Total Revenue and Support	\$ <u>519,069</u>	\$ <u>465,224</u>
Expenses		
Program Services		
Animal Care and Education	\$ <u>451,456</u>	\$ <u>428,203</u>
Support Services		
Fundraising	\$ 61,274	\$ 70,982
Management and General	<u>91,139</u>	<u>91,366</u>
Total Support Services	\$ <u>152,413</u>	\$ <u>162,348</u>
Total Expenses	\$ <u>603,869</u>	\$ <u>590,551</u>
Change in Net Assets	\$ (84,800)	\$ (125,327)
Net Assets - Beginning of Year	1,325,601	1,458,373
Prior Period Adjustment (Note 7)	<u>---</u>	<u>(7,445)</u>
Net Assets - End of Year	\$ <u>1,240,801</u>	\$ <u>1,325,601</u>

See accompanying Notes to Financial Statements.

ANIMALS DESERVING OF PROPER TREATMENT

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Compared With 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ (84,800)	\$ (125,327)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	38,286	41,131
Changes in Operating Assets and Liabilities		
Accrued Expenses	<u>(1,954)</u>	<u>12,272</u>
Net Cash Flows From Operating Activities	\$ <u>(48,468)</u>	\$ <u>(71,924)</u>
Cash Flows From Investing Activities:		
Purchase of Property and Equipment	\$ (3,808)	\$ (13,219)
Transfer From Investment Accounts	81,655	63,281
Unrealized (Gains) Losses on Investments	<u>---</u>	<u>(1,303)</u>
Net Cash Flows From Investing Activities	\$ <u>77,847</u>	\$ <u>48,759</u>
Cash Flows From Financing Activities:		
Line of Credit	\$ <u>49,984</u>	\$ <u>---</u>
Net Change in Cash and Cash Equivalents	\$ 79,363	\$ (23,165)
Cash and Cash Equivalents - Beginning of Year	<u>73,111</u>	<u>96,276</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>152,474</u></u>	\$ <u><u>73,111</u></u>
Supplemental Disclosure:		
Interest Paid on Line of Credit (None Capitalized)	\$ <u><u>253</u></u>	\$ <u><u>---</u></u>

See accompanying Notes to Financial Statements.

ANIMALS DESERVING OF PROPER TREATMENT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016
(Compared With 2015 Totals)

	2016				2015 Total
	Program	Fundraising	Management and General	Total	
Direct Animal Care	\$ 69,783	\$ ---	\$ ---	\$ 69,783	\$ 69,343
Depreciation	28,722	---	9,564	38,286	41,131
Fundraising	---	26,562	---	26,562	36,090
Payroll Costs	292,152	28,855	39,675	360,682	350,191
Advertising and Marketing	---	1,758	---	1,758	---
Bank and Credit Card Fees	---	---	5,433	5,433	4,286
Brokerage Fees	---	---	497	497	1,715
Insurance	12,917	---	3,304	16,221	15,614
Office Expense	2,522	249	344	3,115	3,218
Professional Fees	---	---	26,161	26,161	13,453
Telephone	6,176	610	840	7,626	5,400
Occupancy	32,804	3,240	4,455	40,499	42,718
Other	6,380	---	866	7,246	7,392
Total Expenses	\$ <u>451,456</u>	\$ <u>61,274</u>	\$ <u>91,139</u>	\$ <u>603,869</u>	\$ <u>590,551</u>

See accompanying Notes to Financial Statements.

ANIMALS DESERVING OF PROPER TREATMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

Animals Deserving of Proper Treatment (ADOPT) is a not-for-profit organization incorporated in the State of Illinois focusing on the placement of animals into permanent, caring homes and to advance proper treatment of animals through education.

B. Basis of Accounting

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of ADOPT are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets include the revenues and expenses of the primary operations of ADOPT. Donor-restricted contributions and grants whose restrictions are met in the same reporting period are reported as unrestricted support.

Temporarily-Restricted Net Assets - Net assets subject to donor or grant-imposed stipulations that may or will be met either by actions of ADOPT and/or the passage of time. When a restriction expires, temporarily-restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. ADOPT had no temporarily restricted net assets at December 31, 2016 or 2015.

Permanently-Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by ADOPT. Generally, the donor of these assets permits the Organization to use all or part of the income earned on related investments for general or specific purposes. ADOPT had no permanently restricted net assets at December 31, 2016 or 2015.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Adoption fees are recognized as revenue when the adoption is finalized. Expenses are reported as decreases in unrestricted undesignated or unrestricted designated net assets as appropriate. Gains and losses on investments and other liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

ADOPT reports gifts of cash and other assets as restricted support if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily-restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

C. Income From Permanently-Restricted Net Assets

Permanently restricted endowment funds are subject to restrictions of gift instruments, which require that the principal be invested and maintained in perpetuity. Income derived from endowment funds may either be expended or added to principal.

D. Cash and Cash Equivalents

ADOPT defines cash and cash equivalents to include highly-liquid, short-term investments with a maturity at the date of acquisition of three months or less.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

E. Investments

Investments are stated at fair value. Fair values for marketable securities traded on national securities exchanges are determined by the last sales price on the last business day of the fiscal year. Fair values for mutual fund shares and fixed income securities are the net asset value which equals the redemption value. Unrealized gains and losses on investments held during the year are recognized during the period in which the fair value of the investment changes.

F. Property and Equipment

Property and equipment are stated at cost if purchased or fair market value at date of the gift, if donated. All acquisitions of property and equipment in excess of \$500 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

G. Tax-Exempt Status

ADOPT has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes on its tax exempt activities.

H. In-kind Contributions

Donated materials and equipment are recognized at their fair value at the date of receipt. Donated personal services are recognized only if they either (a) create or enhance non-financial assets (such as property and equipment), or (b) if they would otherwise have to be purchased. Under this criterion, no donated services were recognized during the years ended December 31, 2016 or 2015.

I. Expense Allocation

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

J. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Fair Value of Financial Instruments

ADOPT's short-term financial instruments consist of cash and cash equivalents. The carrying values of these short-term financial instruments approximate their estimated fair values based on the instruments short-term nature.

The fair value of the Organization's investment securities is based on quoted market prices.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

K. Fair Value of Financial Instruments (continued)

For the fiscal year ended December 31, 2016, there have been no changes in the application of valuation methods applied to similar assets and liabilities.

NOTE 2 - CASH AND CASH EQUIVALENTS

At December 31, 2016 and 2015, cash and cash equivalents consisted of \$152,474 and \$73,111, respectively, in bank deposits.

NOTE 3 - INVESTMENTS

Investments consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Certificates of Deposit	\$ <u>101,208</u>	\$ <u>101,208</u>

Investment income at December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Interest Income and Dividends	\$ 751	\$ 2,928
Realized Gains (Losses)	378	4,414
Net Change in Unrealized Gains (Losses)	<u>---</u>	<u>(4,263)</u>
Total	\$ <u>1,129</u>	\$ <u>3,079</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of:

	<u>2016</u>	<u>2015</u>
Land	\$ 161,187	\$ 161,187
Building and Improvements	1,345,395	1,341,587
Furniture and Equipment	<u>102,376</u>	<u>102,376</u>
Subtotal	\$ 1,608,958	\$ 1,605,150
Less: Accumulated Depreciation	<u>(549,542)</u>	<u>(511,256)</u>
Property and Equipment, Net	\$ <u>1,059,416</u>	\$ <u>1,093,894</u>

NOTE 5 - SUBSEQUENT EVENTS

ADOPT's management has performed an analysis of activities and transactions subsequent to December 31, 2016 to determine the need for any adjustments to and/or disclosures within the financial statements for the year then ended. Management has performed this analysis through June 28, 2017, the date which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - TAXES

ADOPT files annual returns with the Internal Revenue Service and with the Illinois Attorney General reporting on the results of its financial operations even though no income tax is due. These annual returns for the years ended December 31, 2013, 2014, and 2015 are generally subject to examination by the Internal Revenue Service for three years after they are filed.

NOTE 7 - PRIOR PERIOD ADJUSTMENT

Accrued salaries of \$7,445 were omitted from the 2014 financial statements. This amount was recorded in 2015 as an adjustment applicable to the prior period.

NOTE 8 - LINE OF CREDIT

During 2016, the Organization obtained a line of credit from a financial institution. The interest rate is 4.05% daily periodic. The line of credit does not expire. At December 31, 2016, the balance on the line of credit was \$49,984.