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Animals Deserving of Proper Treatment

Audited Financial Statements

Years Ended December 31, 2019 and 2018

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WIPFLI^{LLP}
CPAs and Consultants #

Animals Deserving of Proper Treatment

Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Animals Deserving of Proper Treatment
Naperville, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Animals Deserving of Proper Treatment (a non profit corporation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, 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; 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. 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 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 as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States.

Wipfli LLP

Aurora, Illinois
April 23, 2020

Animals Deserving of Proper Treatment
 Statements of Financial Position
 Years Ended December 31, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 219,025	\$ 216,363
Investments	204,122	164,274
Prepaid expenses	<u>-</u>	<u>3,000</u>
Total current assets	<u>423,147</u>	<u>383,637</u>
Capital assets:		
Property and equipment - net	<u>987,970</u>	<u>1,021,079</u>
Total Assets	<u>\$ 1,411,117</u>	<u>\$ 1,404,716</u>
Liabilities and Net Assets		
Liabilities		
Current Liabilities:		
Accrued expenses	<u>15,297</u>	<u>23,263</u>
Net assets:		
Without donor restrictions	1,393,820	1,381,453
With donor restrictions	<u>2,000</u>	<u>-</u>
Total net assets	<u>1,395,820</u>	<u>1,381,453</u>
Total Liabilities and Net Assets	<u>\$ 1,411,117</u>	<u>\$ 1,404,716</u>

See accompanying notes to financial statements.

Animals Deserving of Proper Treatment

Statements of Activities and Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Adoptions	\$ 139,495	\$ -	\$ 139,495	\$ 130,091	\$ -	\$ 130,091
Clinical	154,790	-	154,790	127,788	-	127,788
Direct Public Support	212,224	2,000	214,224	215,634	-	215,634
Membership	15,416	-	15,416	20,300	-	20,300
Special Events	94,601	-	94,601	60,423	-	60,423
Other Program Revenue	28,309	-	28,309	52,142	-	52,142
Business Partners for Pets	2,000	-	2,000	-	-	-
Investment Income	31,043	-	31,043	(11,334)	-	(11,334)
Net Assets released from restrictions	-	-	-	19,812	(19,812)	-
Total support and revenue	677,878	2,000	679,878	614,856	(19,812)	595,044
Expenses:						
Program services	502,216	-	502,216	508,698	-	508,698
Management and general	97,339	-	97,339	91,506	-	91,506
Fundraising	65,956	-	65,956	43,223	-	43,223
Total expenses	665,511	-	665,511	643,427	-	643,427
Changes in net assets	12,367	2,000	14,367	(28,571)	(19,812)	(48,383)
Net assets at beginning of year	1,381,453	-	1,381,453	1,410,024	19,812	1,429,836
Net assets at end of year	\$ 1,393,820	\$ 2,000	\$1,395,820	\$ 1,381,453	\$ -	\$1,381,453

See accompanying notes to financial statements.

Animals Deserving of Proper Treatment
Statement of Functional Expenses
Years Ended December 31, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Animal care	\$ 92,036	\$ -	\$ -	\$ 92,036	\$ 91,132	\$ -	\$ -	\$ 91,132
Depreciation expense	30,863	10,288	-	41,151	29,631	9,877	-	39,508
Fundraising	-	-	16,666	16,666	-	-	17,578	17,578
Program expenses	1,364	-	-	1,364	617	-	-	617
Special events costs	-	-	34,028	34,028	-	-	9,258	9,258
Office expense	-	4,315	-	4,315	-	4,322	-	4,322
Supplies and merchandise	77	5,156	-	5,233	1,424	3,836	-	5,260
Computer expenses	3,150	3,150	-	6,299	634	634	551	1,819
Business insurance	15,135	3,784	-	18,919	14,857	3,714	-	18,571
Bank charges	3,675	2,734	703	7,112	4,082	2,851	969	7,902
Payroll	265,148	37,461	12,000	314,609	284,502	39,611	12,000	336,113
Payroll taxes	20,283	2,866	918	24,067	21,788	3,033	918	25,739
Payroll benefits	3,686	1,229	1,229	6,144	4,031	1,344	1,344	6,719
Occupancy	57,737	10,189	-	67,926	45,269	7,989	-	53,258
Professional services	771	11,750	-	12,521	692	9,665	-	10,357
Other miscellaneous expenses	8,291	4,418	413	13,122	10,039	4,630	605	15,274
Total	<u>\$ 502,216</u>	<u>\$ 97,339</u>	<u>\$ 65,956</u>	<u>\$ 665,511</u>	<u>\$ 508,698</u>	<u>\$ 91,506</u>	<u>\$ 43,223</u>	<u>\$ 643,427</u>

See accompanying notes to financial statements.

Animals Deserving of Proper Treatment

Statements of Cash Flows

Years ended Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ 14,367	\$ (48,383)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	41,150	39,508
Unrealized (gains) losses on investments	(25,887)	14,316
Changes in operating assets and liabilities:		
Prepaid items	3,000	(3,000)
Accrued expenses	<u>(7,966)</u>	<u>5,846</u>
Net cash from operating activities	<u>24,664</u>	<u>8,287</u>
Cash flows from investing activities:		
Purchase of investments	(13,961)	(178,590)
Loss on disposal of property and equipment	315	(19,233)
Purchase of property and equipment	<u>(8,356)</u>	<u>-</u>
Net cash from investing activities	<u>(22,002)</u>	<u>(197,823)</u>
Net change in cash	2,662	(189,536)
Cash at beginning of year	<u>216,363</u>	<u>405,899</u>
Cash at end of year	<u>\$ 219,025</u>	<u>\$ 216,363</u>

See accompanying notes to financial statements.

Animals Deserving of Proper Treatment

Notes to Financial Statements

December 31, 2019

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Animals Deserving of Proper Treatment (ADOPT) is 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.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP").

Basis of Presentation

ADOPT is required to report information regarding its financial position and activities according to two classes of net assets. A definition and description of each class follows:

Net Assets Without Donor Restriction - Net assets available for use in general operations and not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by the board of directors.

Net Assets With Donor Restriction - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions received are recorded as support with or without donor restrictions depending on the existence or nature of any donor or grantor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless the use of 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 net assets with or without donor restrictions as appropriate. Gains and losses on investments and other liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

Animals Deserving of Proper Treatment

Notes to Financial Statements

December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash is defined as cash on hand, amounts held at financial institutions, and short-term highly liquid investments with a maturity at the date of acquisition of three months or less that are readily convertible to known amounts of cash. Investments with an original maturity of three months or less are considered short-term for these purposes. ADOPT's bank accounts may, at times, exceed federally insured limits.

Fair Value Measurements

Investments are presented in accordance with ASC Topic 820, Fair Value Measurements and Disclosures. Under ASC Topic 820, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted prices in active markets (all level 1 measurements). ADOPT recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the years ended December 31, 2019 and 2018. Net unrealized gains or losses on investments are included in the Statement of Activities, separate from investment income.

ADOPT's financial instruments consist principally of cash and cash equivalents and marketable securities. The fair value of a financial instrument is the amount that would be received in an asset sale between unaffiliated market participants. Assets measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1 Inputs are based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets and/or quoted prices of identical or similar assets or liabilities in markets that are not active near the measurement date.

Level 3 Inputs include management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

The fair value of the majority of ADOPT's cash equivalents and marketable securities was determined based on Level 1 inputs. ADOPT does not have any marketable securities in the Level 2 or Level 3 categories. ADOPT believes that the recorded values of all the financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Animals Deserving of Proper Treatment

Notes to Financial Statements

December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost if purchased or fair market value at date of 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 using the following estimated useful lives:

Building	10-40 years
Building Improvements	10 years
Furniture, Fixtures, and Equipment	5-10 years

Income Taxes

ADOPT is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to ADOPT's tax-exempt purpose is subject to taxation on unrelated business income. ADOPT has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the code. ADOPT is also exempt from state income taxes.

Donated Services

ADOPT recognizes donated services as revenues at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. ADOPT receives a significant amount of donated services from volunteers who assist in taking care of sheltered animals. No amounts have been recognized in the accompanying statements for these voluntary services because the criteria for recognition of such volunteer effort have not been satisfied.

Functional Allocation of Expenses

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.

Advertising and Promotion

ADOPT expenses advertising costs as incurred. For the years ended December 31, 2019 and 2018, advertising expense was \$0.

Animals Deserving of Proper Treatment

Notes to Financial Statements

December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Change in Accounting Policy

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ADOPT adopted this guidance effective January 1, 2019 as it felt it was the most faithful depiction of the timing of revenue reasonably expected to be collected in exchange for goods or services. ADOPT applied Topic 606 on a modified retrospective basis. There was no change to reported revenue, net assets, or the change in net assets for either period presented.

New Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842) - When this standard is adopted, the primary accounting change will require lessees to recognize right of use assets and lease obligations for most operating leases as well as finance leases. This new standard is effective for financial statements issued for annual periods beginning after December 15, 2019. The ADOPT is evaluating what impact this new standard will have on its financial statements.

Note 2: Cash and cash Equivalents

At December 31, 2019 and 2018, cash and cash equivalents consisted of \$219,025 and \$216,363, respectively in bank deposits.

Note 3: Investments

The methods used to value investments may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although ADOPT believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based on quoted prices for identical assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requires observable inputs other than quoted prices such as yield curves. Level 1 mutual funds and exchange traded funds are valued based on quoted market prices on nationally recognized security exchanges.

Animals Deserving of Proper Treatment

Notes to Financial Statements

December 31, 2019

Note 3: Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, ADOPT's investments at fair value as of December 31, 2019:

	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities:				
Mutual Funds	\$ 77,668	\$ 77,668	\$ -	\$ -
Stock and ADRs	7,900	7,900	-	-
Exchange Traded Funds (ETFs)	<u>118,554</u>	<u>118,554</u>	-	-
Total	<u>\$ 204,122</u>	<u>\$ 204,122</u>	<u>\$ -</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, ADOPT's investments at fair value as of December 31, 2018.

	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities:				
Mutual Funds	\$ 35,358	\$ 35,358	\$ -	\$ -
Exchange Traded Funds (ETFs)	<u>128,916</u>	<u>128,916</u>	-	-
Total	<u>\$ 164,274</u>	<u>\$ 164,274</u>	<u>\$ -</u>	<u>\$ -</u>

The unrealized gains and (losses) on investments for the years ended December 31, 2019 and 2018 are \$11,261 and \$14,626, respectively.

The amounts reported above do not include assets considered to be cash or cash equivalents.

Animals Deserving of Proper Treatment

Notes to Financial Statements

December 31, 2019

Note 4: Liquidity and Availability of Financial Resources

The following represents ADOPT's financial assets at December 31, 2019 and 2018:

December 31,	2019	2018
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 219,025	\$ 216,363
Investments	<u>204,122</u>	<u>164,274</u>
Total Financial Assets	423,147	380,637
Less amounts not available to be used within one year:		
Net Assets with Donor Restrictions	<u>(2,000)</u>	<u>-</u>
Financial Assets Available to Meet General Expenditures over the Next Twelve Months	<u>\$ 421,147</u>	<u>\$ 380,637</u>

ADOPT maintains financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

Note 5: Property and Equipment

A summary of property and equipment is as follows:

December 31,	2019	2018
Land	\$ 161,187	\$ 161,187
Building and improvements	<u>1,474,582</u>	<u>1,469,419</u>
Total property and equipment	1,635,769	1,630,606
Less: accumulated depreciation and amortization	<u>(647,799)</u>	<u>(609,527)</u>
Property and equipment, net	<u>\$ 987,970</u>	<u>\$ 1,021,079</u>

Depreciation expense was \$41,150 and \$39,508 for the years ended December 31, 2019 and 2018, respectively.

Animals Deserving of Proper Treatment

Notes to Financial Statements

December 31, 2019

Note 6: Line of Credit

As of December 31, 2019 and 2018, there was no outstanding borrowings against the line of credit.

Note 7: Operating Lease

ADOPT leases a copier under an operating lease which requires monthly rental payments and expires October 2023.

The future minimum lease payments on the copier lease as of December 31, 2019 are as follows:

<u>December 31,</u>	
2020	\$ 2,349
2021	2,349
2022	2,349
2023	<u>2,349</u>
Total	\$ <u>9,396</u>

Equipment rental expense included in operations totaled \$2,696 and \$4,071 in December 31, 2019 and 2018, respectively.