

**THE CLEVELAND  
ANIMAL PROTECTIVE LEAGUE**

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015  
(With Comparative Totals for the Year Ended December 31, 2014)

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**  
(With Comparative Totals for the Year Ended December 31, 2014)

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## ***INDEPENDENT AUDITOR'S REPORT***

Board of Directors  
The Cleveland Animal Protective League  
Cleveland, Ohio

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Cleveland Animal Protective League (the Cleveland APL, a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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 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 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 the Cleveland APL as of December 31, 2015, 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 the Cleveland APL's December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Carol Palmer Abbisbon & Co.*

Cleveland, Ohio  
May 25, 2016

## FINANCIAL STATEMENTS

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**  
(With Comparative Totals for the Year Ended December 31, 2014)

ASSETS

	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents, unrestricted	\$ 1,087,344	\$ 1,285,712
Cash and cash equivalents, temporarily restricted	670,725	674,400
Pledges receivable, net of allowance	52,390	50,301
Accounts receivable	108,969	65,300
Estate receivable	68,000	54,000
Grants receivable	75,000	60,000
Prepaid expenses	<u>12,779</u>	<u>751</u>
 Total current assets	 <u>2,075,207</u>	 <u>2,190,464</u>
 INVESTMENTS (at fair value)	 <u>6,234,357</u>	 <u>6,299,294</u>
 PROPERTY AND EQUIPMENT:		
Land	243,138	243,138
Building and improvements	7,107,811	7,060,437
Equipment and fixtures	769,370	742,317
Motor vehicles	<u>331,399</u>	<u>275,809</u>
	8,451,718	8,321,701
Less accumulated depreciation	<u>(4,152,785)</u>	<u>(3,915,395)</u>
 Net property and equipment	 <u>4,298,933</u>	 <u>4,406,306</u>
 OTHER ASSETS:		
Funds held in trust by others	<u>2,516,768</u>	<u>2,701,013</u>
 TOTAL ASSETS	 <u>\$ 15,125,265</u>	 <u>\$ 15,597,077</u>

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

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 57,013	\$ 62,925
Accrued wages	126,821	119,593
Other current liabilities	<u>12,487</u>	<u>20,242</u>
Total current liabilities	<u>196,321</u>	<u>202,760</u>
 NET ASSETS:		
Unrestricted:		
Operating	1,364,452	1,490,667
Net investment in property and equipment	4,298,933	4,406,306
Board designated	<u>5,619,866</u>	<u>5,699,584</u>
Total unrestricted net assets	11,283,251	11,596,557
Temporarily restricted	813,725	788,400
Permanently restricted	<u>2,831,968</u>	<u>3,009,360</u>
Total net assets	<u>14,928,944</u>	<u>15,394,317</u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 15,125,265</u></u>	<u><u>\$ 15,597,077</u></u>

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

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(With Comparative Totals for the Year Ended December 31, 2014)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUE:					
Program services	\$ 840,465	\$ -	\$ -	\$ 840,465	\$ 852,159
In-kind revenue	144,929	-	-	144,929	116,368
Miscellaneous	136,679	-	-	136,679	85,779
Change in value of trusts	134,089	-	(184,245)	(50,156)	147,092
Investment return	(83,223)	498	7,351	(75,374)	329,363
Total operating revenue	1,172,939	498	(176,894)	996,543	1,530,761
OPERATING EXPENSES:					
Animal admissions, care, and adoptions	2,979,893	-	-	2,979,893	2,841,328
Fundraising	782,451	-	-	782,451	803,121
Animal welfare clinic/trap-neuter-return	240,459	-	-	240,459	253,862
Administrative and general	228,417	-	-	228,417	235,226
Humane investigations	221,486	-	-	221,486	202,656
Total operating expenses	4,452,706	-	-	4,452,706	4,336,193
INCOME (LOSS) FROM OPERATIONS	(3,279,767)	498	(176,894)	(3,456,163)	(2,805,432)
CONTRIBUTED INCOME:					
Appeals	983,060	-	-	983,060	1,016,045
Fundraising events	635,056	-	-	635,056	511,372
Donations and memorials	632,304	-	-	632,304	688,625
Estates and bequests	409,045	186,125	-	595,170	624,221
Grants received	36,000	109,200	-	145,200	223,243
Net assets released from restrictions	270,996	(270,498)	(498)	-	-
Total contributed income	2,966,461	24,827	(498)	2,990,790	3,063,506
CHANGE IN NET ASSETS	(313,306)	25,325	(177,392)	(465,373)	258,074
NET ASSETS AT BEGINNING OF YEAR	11,596,557	788,400	3,009,360	15,394,317	15,136,243
NET ASSETS AT END OF YEAR	<u>\$11,283,251</u>	<u>\$ 813,725</u>	<u>\$ 2,831,968</u>	<u>\$ 14,928,944</u>	<u>\$ 15,394,317</u>

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



**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(With Comparative Totals for the Year Ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (465,373)	\$ 258,074
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operations:		
Depreciation	237,390	239,730
Gain on sale of securities	(163,072)	(228,550)
Unrealized loss on investments	362,591	9,426
Change in value of split-interest trusts	50,156	(147,092)
Change in allowance for doubtful accounts	1,882	(1,018)
(Increase) decrease in operating assets	(88,668)	241,842
Increase (decrease) in operating liabilities	<u>(6,439)</u>	<u>16,567</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(71,533)</u>	<u>388,979</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(130,017)	(29,207)
Distributions received from split-interest trusts	134,089	124,058
Proceeds from sale of securities	938,350	1,287,865
Purchase of securities	<u>(1,072,932)</u>	<u>(1,374,344)</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(130,510)</u>	<u>8,372</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(202,043)	397,351
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>1,960,112</u>	<u>1,562,761</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><u>\$ 1,758,069</u></u>	<u><u>\$ 1,960,112</u></u>

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

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**1. ORGANIZATION**

The Cleveland Animal Protective League (the Cleveland APL) is a non-profit organization. Incorporated in 1913 in response to the overwhelming number of abused and abandoned animals needing assistance in our community, the Cleveland APL is now the largest humane society in Ohio and a progressive leader in the field of animal welfare. The Cleveland APL's mission is to foster compassion and end animal suffering through adoptions, humane investigations, spay/neuter and education. The Cleveland APL provides shelter, care, and medical treatment to animals that have lost their homes and/or suffered cruelty or neglect.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Cleveland APL is presented to assist in understanding the Cleveland APL's financial statements. The financial statements and notes are representations of the Cleveland APL's management, which is responsible for their integrity and objectivity.

**Basis of accounting**

The Cleveland APL's financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Basis of presentation**

The Cleveland APL adopted guidance as required by the Financial Statements of Not-for-Profit Organizations Topic of the FASB Accounting Standards Codification. Under this guidance, the Cleveland APL is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Receivables**

Receivables consist of accounts receivable, grants receivable, estates receivable, and pledges receivable. The accounts, grants, and estates receivable are all expected to be collected currently. Management has elected to set up an allowance for doubtful accounts of \$3,532 within the pledges receivable for the year ended December 31, 2015, which are also due currently. The allowance is based on historical experience as well as a review of delinquent accounts. It is the APL's policy to charge off uncollectible receivables when management determines the receivable will not be collected. Bad debt expense for the year ended December 31, 2015 amounted to \$8,350.

**Donated services**

Donated services are recognized as contributions, in accordance with the Contributions Received and Contributions Topic of the FASB Accounting Standards Codification, 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 Cleveland APL.

Many volunteers provide services for the Cleveland APL that are not recognized as contributions in the financial statements as they do not fit the recognition criteria. However, the Cleveland APL relies heavily on the volunteers to assist with various programs. Unrecognized donated services revenue and expense is estimated to be \$2,289,052 for the year ended December 31, 2015.

**Investment income**

Investment income, including realized and unrealized gains, is added to the appropriate unrestricted, temporarily, or permanently restricted net assets.

**Concentrations of credit risk**

The Cleveland APL maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Cleveland APL has not experienced nor does it expect any losses in such accounts.

**Cash and cash equivalents**

For purposes of the statement of cash flows, the Cleveland APL considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

There was no cash paid during the year for interest or income taxes.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**3. INCOME TAX STATUS**

The Cleveland APL is organized under 501(c)(3) of the Internal Revenue Code as a nonprofit, tax-exempt organization. In addition, the State of Ohio has also granted the Cleveland APL tax-exempt status.

The Cleveland APL has adopted guidance, as required by the Income Taxes Topic of the FASB Accounting Standards Codification regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Cleveland APL's income tax returns. As of December 31, 2015, the Cleveland APL has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Cleveland APL's open audit periods are for the tax years ended December 31, 2012 through December 31, 2015.

**4. PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost and include additions and improvements that extend the useful lives of the assets. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred.

Depreciation is calculated on the double-declining balance and straight-line methods over the estimated useful lives of the respective assets as follows:

Building	40 years
Building improvements	10-40 years
Equipment and fixtures	5-10 years
Motor vehicles	5 years

Depreciation expense for the year ended December 31, 2015 was \$237,390.

**5. INVESTMENTS**

Fair values, based on quoted market prices, are as follows:

<u>December 31, 2015</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Appreciation (Depreciation)</u>
Stocks	\$ 4,349,119	\$ 837,011
Fixed income	1,539,041	(32,202)
Cash and cash equivalents	346,197	-
	<u>\$ 6,234,357</u>	<u>\$ 804,809</u>

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**5. INVESTMENTS (Continued)**

Investment returns are as follows:

<u>December 31, 2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Dividends and interest	\$ 117,813	\$ 3,166	\$ 3,166
Net realized gains	154,702	4,185	4,185
Net unrealized losses	(355,738)	(6,853)	-
	<u>\$ (83,223)</u>	<u>\$ 498</u>	<u>\$ 7,351</u>

**6. FUNCTIONAL EXPENSES**

The following is a summary of expenses by function:

Programs	\$ 3,441,838
Management and general	228,417
Fundraising	<u>782,451</u>
	<u>\$ 4,452,706</u>

**7. RETIREMENT BENEFIT PLAN**

Employees working at least twenty hours per week are eligible to participate in the Cleveland APL's 403(b) retirement benefit plan upon hire. Each participant may elect a salary reduction deferral from 1% to the maximum amount allowable by law. Participants who have completed at least one year of service are eligible to receive an employer matching contribution as determined by the Board of Directors. The current discretionary employer matching percentage is 50% of the first 6% of eligible earnings that the participant contributes to the plan through salary deferrals. Effective January 1, 2014, the APL implemented a new 403(b) plan to include a Safe Harbor design that allowed for an additional 50% match up to the next 2% of eligible earnings. With a Safe Harbor design, highly compensated employees can contribute up to the maximum amounts each year. Employees are 100% vested for employer matching contributions upon completing twelve months of consecutive service or 1,000 hours of consecutive service. For the year ended December 31, 2015, contributions and plan expenses were \$39,586.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
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**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets represent funds to be used in future periods and are restricted for the following purposes as of December 31, 2015:

Animal care programs	\$ 687,706
General operating	68,000
Spay/Neuter programs	<u>58,019</u>
	<u>\$ 813,725</u>

The Cleveland APL released net assets of \$270,498 from temporary restrictions during the year ended December 31, 2015 by incurring expenditures which satisfied their restricted purposes.

**9. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets represent funds which are subject to the restriction of the donors that the principal be invested in perpetuity and only the income of such investments be utilized. As of December 31, 2015, permanently restricted net assets included a bequest held in investment accounts. The funds, as well as half of the annual earnings of such funds, carry a donor imposed restriction requiring the funds to remain in perpetuity with the remaining net income generated to be used at the Board's discretion. In addition, funds held in trust by others consist of three irrevocable trusts established for the benefit of the Cleveland APL. The future values of these distributions are estimated based upon the fair market value of the assets and are reflected in the financial statements as permanently restricted net assets.

**10. ENDOWMENT FUNDS**

The Cleveland APL's endowment consists of various investments established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**10. ENDOWMENT FUNDS (Continued)**

The Board of Directors of the Cleveland APL has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Cleveland APL classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Cleveland APL in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Cleveland APL considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Cleveland APL, and (7) the Cleveland APL's investment policies.

*Investment Return Objectives, Risk Parameters, and Strategies:* The Cleveland APL has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Cleveland APL expects its endowment assets, measured on a rolling twelve quarter moving average, to produce an average rate of return of approximately 8.5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
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**10. ENDOWMENT FUNDS (Continued)**

*Spending Policy:* The Cleveland APL has a policy of appropriating a targeted annual distribution of 5% of its endowment fund's average fair value. In establishing this policy, the Cleveland APL considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Cleveland APL expects the current spending policy to allow its endowment funds to grow at a rate consistent with the Cleveland APL's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. Except for funds maintained in perpetuity per donor restrictions, the Board of Directors, by majority vote, may elect to change the targeted distribution to meet operational needs in any given year.

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ -	\$ -	\$ 315,200	\$ 315,200
Board-designated endowments	5,619,866	-	-	5,619,866
Total	<u>\$ 5,619,866</u>	<u>\$ -</u>	<u>\$ 315,200</u>	<u>\$ 5,935,066</u>

Changes in endowment net assets as of December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,699,584	\$ -	\$ 308,347	\$ 6,007,931
Contributions	30,131	-	-	30,131
Investment income	117,054	3,166	3,166	123,386
Net realized gains	154,702	4,185	4,185	163,072
Net unrealized losses	(355,738)	(6,853)	-	(362,591)
Investment fees	(18,420)	(498)	(498)	(19,416)
Appropriated for expenditures	(298,282)	-	-	(298,282)
Other:				
Prior year unspent appropriations	<u>290,835</u>	<u>-</u>	<u>-</u>	<u>290,835</u>
Endowment net assets, end of year	<u>\$ 5,619,866</u>	<u>\$ -</u>	<u>\$ 315,200</u>	<u>\$ 5,935,066</u>

During the year ended December 31, 2015, the Cleveland APL appropriated \$298,282 of endowment funds to be used for general operating purposes. The amount appropriated for expenditures had not been transferred out of the investment account by year-end.



**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**11. FAIR VALUE MEASUREMENT**

The Cleveland APL follows guidance, as required by the Fair Value Measurement Topic of the FASB Accounting Standards Codification, which defines 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 the measurement date and establishes a framework for measuring fair value. The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements.

The FASB Accounting Standards Codification guidance on the Fair Value Option for Financial Assets and Financial Liabilities Topic, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The Cleveland APL did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

As noted above, the FASB Accounting Standards Codification guidance on the Fair Value Measurement Topic establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Cleveland APL has the ability to access at the measurement date.
- Level 2 – quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability.
- Level 3 – Significant unobservable prices or inputs (including the Cleveland APL's own assumptions in determining the fair value of assets or liabilities) where there is little or no market activity for the asset or liability at the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
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**11. FAIR VALUE MEASUREMENT (Continued)**

Investments and funds held in trust by others are stated at fair value as determined using inputs comprised of the following at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Funds held in trust by others	\$ -	\$ -	\$ 2,516,768	\$ 2,516,768
Investments:				
Stocks	4,349,119	-	-	4,349,119
Fixed income	1,539,041	-	-	1,539,041
Cash and cash equivalents	346,197	-	-	346,197
Total	<u>\$ 6,234,357</u>	<u>\$ -</u>	<u>\$ 2,516,768</u>	<u>\$ 8,751,125</u>

Level 3 Assets Year Ended December 31, 2015

	<u>Funds Held in Trust by Others</u>
Balance, beginning of year	\$ 2,701,013
Distributions received	(134,089)
Depreciation	<u>(50,156)</u>
Balance, end of year	<u>\$ 2,516,768</u>

*Funds held in trust by others* – Funds held in trust by others are valued using the fair value of the assets in the trust as a practical expedient unless the facts and circumstances indicate that the fair value of the assets in the trusts differ from the fair value of the beneficial interests. Funds held in trust by others cannot be liquidated or traded in an active market.

*Stocks* – Stocks consist of marketable equity securities of domestic and international corporations in a variety of industries that are valued based on quoted prices in active markets.

*Fixed income* – Fixed income funds consist of investments in mutual funds and exchange-traded products that are based on quoted prices in active markets.

*Cash and cash equivalents* – Cash and cash equivalents consist of investments in money market accounts that are based on quoted prices in active markets.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**11. FAIR VALUE MEASUREMENT (Continued)**

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

**12. PRIOR YEAR SUMMARIZED INFORMATION**

The financial statements contain certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Cleveland APL's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

**13. RECLASSIFICATIONS**

Certain items in the 2014 comparative information have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the increase in net assets.

**14. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 25, 2016, which is the date the financial statements were available to be issued.