

**THE CLEVELAND  
ANIMAL PROTECTIVE LEAGUE**

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017  
(With Comparative Totals for the Year Ended December 31, 2016)

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(With Comparative Totals for the Year Ended December 31, 2016)**

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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, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 "And, Palm, Sun & Co." The signature is written in a cursive, flowing style.

Cleveland, Ohio  
May 25, 2018

## FINANCIAL STATEMENTS

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**  
(With Comparative Totals for the Year Ended December 31, 2016)

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents, unrestricted	\$ 2,395,285	\$ 1,518,467
Cash and cash equivalents, temporarily restricted	533,959	510,658
Pledges receivable, current portion, net of allowance	144,815	32,935
Accounts receivable	146,906	136,217
Estates receivable	3,460,500	172,826
Grants receivable	55,000	175,000
Prepaid expenses	<u>33,811</u>	<u>33,394</u>
 Total current assets	 <u>6,770,276</u>	 <u>2,579,497</u>
 INVESTMENTS (at fair value)	 <u>7,805,118</u>	 <u>6,801,135</u>
 <b>PROPERTY AND EQUIPMENT:</b>		
Land	243,138	243,138
Building and improvements	7,129,539	7,109,375
Equipment and fixtures	881,599	855,238
Motor vehicles	353,740	312,032
Construction in progress	<u>18,534</u>	<u>-</u>
	8,626,550	8,519,783
Less accumulated depreciation	<u>(4,599,812)</u>	<u>(4,378,014)</u>
 Net property and equipment	 <u>4,026,738</u>	 <u>4,141,769</u>
 <b>OTHER ASSETS:</b>		
Funds held in trust by others	2,884,307	2,574,612
Pledges receivable, net of current portion	<u>300,000</u>	<u>-</u>
 Total other assets	 <u>3,184,307</u>	 <u>2,574,612</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 21,786,439</u></u>	 <u><u>\$ 16,097,013</u></u>

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

## LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES:		
Accounts payable	\$ 82,451	\$ 66,918
Accrued wages	177,265	156,149
Other current liabilities	<u>4,582</u>	<u>15,106</u>
Total current liabilities	<u>264,298</u>	<u>238,173</u>
NET ASSETS:		
Unrestricted:		
Operating	2,674,019	1,784,340
Net investment in property and equipment	4,026,738	4,141,769
Board designated	<u>7,092,488</u>	<u>6,154,281</u>
Total unrestricted net assets	13,793,245	12,080,390
Temporarily restricted	4,515,748	881,602
Permanently restricted	<u>3,213,148</u>	<u>2,896,848</u>
Total net assets	<u>21,522,141</u>	<u>15,858,840</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 21,786,439	\$ 16,097,013

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, 2017**  
(With Comparative Totals for the Year Ended December 31, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>OPERATING REVENUE:</b>					
Program services	\$ 957,909	\$ -	\$ -	\$ 957,909	\$ 892,462
Investment return	955,652	43,171	6,605	1,005,428	568,841
In-kind revenue	259,511	-	-	259,511	207,923
Investment income and change in value of trusts	127,550	-	309,695	437,245	189,733
Miscellaneous	111,174	-	-	111,174	79,156
Gain on sale of motor vehicle	16,653	-	-	16,653	400
Total operating revenue	2,428,449	43,171	316,300	2,787,920	1,938,515
<b>OPERATING EXPENSES:</b>					
Animal admissions, care, and adoptions	3,327,827	-	-	3,327,827	3,223,913
Fundraising	968,367	-	-	968,367	825,889
Administrative and general	299,811	-	-	299,811	245,590
Animal welfare clinic/trap-neuter-return	292,776	-	-	292,776	230,253
Humane investigations	234,753	-	-	234,753	219,708
Total operating expenses	5,123,534	-	-	5,123,534	4,745,353
<b>INCOME (LOSS) FROM OPERATIONS</b>	(2,695,085)	43,171	316,300	(2,335,614)	(2,806,838)
<b>CONTRIBUTED INCOME:</b>					
Estates and bequests	1,119,634	3,473,486	-	4,593,120	1,109,675
Donations and memorials	1,140,186	400,000	-	1,540,186	745,268
Appeals	1,072,555	-	-	1,072,555	1,072,649
Fundraising events	717,354	-	-	717,354	607,772
Grants	7,700	68,000	-	75,700	201,370
Net assets released from restrictions	350,511	(350,511)	-	-	-
Total contributed income	4,407,940	3,590,975	-	7,998,915	3,736,734
<b>CHANGE IN NET ASSETS</b>	1,712,855	3,634,146	316,300	5,663,301	929,896
<b>NET ASSETS AT BEGINNING OF YEAR</b>	12,080,390	881,602	2,896,848	15,858,840	14,928,944
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 13,793,245</u>	<u>\$ 4,515,748</u>	<u>\$ 3,213,148</u>	<u>\$ 21,522,141</u>	<u>\$ 15,858,840</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, 2017**  
(With Comparative Totals for the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 5,663,301	\$ 929,896
Adjustments to reconcile increase in net assets to net cash provided by operations:		
Depreciation	250,000	244,596
Gain on sale of securities	(159,040)	(134,690)
Unrealized gain on investments	(737,558)	(302,812)
Change in value of split-interest trusts	(437,245)	(189,733)
Gain on disposal of motor vehicle	(16,653)	(400)
Change in allowance for doubtful accounts	1,462	1,768
Increase in operating assets	(3,592,122)	(235,002)
Increase in operating liabilities	<u>26,125</u>	<u>41,852</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>998,270</u>	<u>355,475</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(138,659)	(87,432)
Proceeds from disposal of motor vehicle	20,343	400
Distributions received from split-interest trusts	127,550	131,889
Proceeds from sale of securities	530,866	300,477
Purchase of securities	<u>(638,251)</u>	<u>(429,753)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(98,151)</u>	<u>(84,419)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	900,119	271,056
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>2,029,125</u>	<u>1,758,069</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><u>\$ 2,929,244</u></u>	<u><u>\$ 2,029,125</u></u>

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

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**1. ORGANIZATION**

Incorporated in 1913, the Cleveland Animal Protective League (the Cleveland APL) is a private, 501(c)(3), nonprofit humane society that operates a 30,000-square-foot animal shelter in the Tremont neighborhood of Cleveland. The Cleveland APL's mission is to foster compassion and end animal suffering. The Cleveland APL offers shelter to homeless pets, works to prevent animal homelessness and reduce the number of animals coming into shelters, promotes compassionate and responsible guardianship, rescues abused and neglected animals, offers support that preserves the human-animal bond, and strives to elevate the status of companion animals in our society. In 2017, the Cleveland APL assisted more than 13,000 animals.

The Cleveland APL is the humane society for Cuyahoga County. The Cleveland APL does not turn companion animals in need away due to their age, health, or temperament. Each year, thousands of animals come through the Cleveland APL's doors. Once inside, they receive the food, shelter, and medical care they so desperately need. For some, it is the only human kindness they have ever received.

The Cleveland APL has achieved 100% placement of healthy, friendly animals and provides extensive veterinary care to animals with treatable illnesses, injuries, and works with animals that have modifiable behavioral issues. THERE IS NEVER A LIMIT to the amount of time a homeless animal can stay at the Cleveland APL. Friendly, healthy animals, and animals with conditions that the Cleveland APL can humanely and safely treat will stay in the Cleveland APL adoption centers until they find their new home. Through the hard work and commitment of the Cleveland APL team, the Cleveland APL is now recognized as a progressive leader in animal welfare.

Animal Sheltering, Care & Outreach: The Cleveland APL operates a 30,000 square foot shelter and animal care facility where animals that have been surrendered by their owners, brought in by Good Samaritans, transferred in from other overcrowded shelters, or seized by Cleveland APL humane investigators receive shelter, care, and treatment. When the shelter is full or when animals have special needs that will be better met in a home, they are placed with temporary, volunteer foster families until they can come back to the Cleveland APL for adoption. While animals that have lost their homes receive shelter and care at the shelter, the Cleveland APL's "project CARE" (Community Animal Retention Effort) outreach efforts allow the Cleveland APL to provide resources and care to animals that are at a high risk of losing their homes with the goal of keeping them in their homes with the families they love. The Cleveland APL relies on the support of private donors and volunteers to make all of this work possible. The Cleveland APL is not governed by and does not receive operating support from any national animal welfare organizations.

Humane Investigations: The Cleveland APL is the lead agency in Cuyahoga County for investigating animal cruelty, neglect, and abandonment. Under Ohio law, the Cleveland APL's Board of Directors is authorized to appoint Humane Agents to enforce local and state animal protection laws. Those appointments must then be approved by the Cuyahoga County Probate Court. The Cleveland APL does not receive public funding in support of this program. This work is funded by donations. The Cleveland APL's Humane Agents also seek justice for animal victims of abuse by working with prosecutors to obtain criminal conviction of the people who hurt them. Under Ohio law, humane agents are also mandated reporters for child abuse and neglect.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**1. ORGANIZATION (Continued)**

Shelter Veterinary Services: The Cleveland APL veterinary clinic provides spay/neuter, medical, and other surgical services for animals that have been admitted to the Cleveland APL for rehoming. All cats, dogs and rabbits are sterilized prior to being adopted from the Cleveland APL. Through donations to the Second Chance Program, animals that have been admitted to the Cleveland APL's shelter and have injuries or illnesses that can be safely and humanely treated will receive the medical and/or surgical care they need so they, too, can find a new home.

Animal Welfare Clinic (AWC): The Cleveland APL's AWC provides spay/neuter services for community cats through Trap-Neuter-Return (TNR) and spay/neuter services for adoptable animals from other partner shelters and rescue groups.

**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.

**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.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

**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.

**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. \$144,815 of pledges receivable are expected to be collected currently. The remaining \$300,000 is expected to be collected within one to five years. Management has elected to set up an allowance for doubtful accounts of \$6,762 within the pledges receivable for the year ended December 31, 2017. 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, 2017 amounted to \$9,905.

Estates receivable of \$3,460,500, as recorded on the statement of financial position and included in the statement of activities, include two large estates. The estates receivable fit the criteria for recognition in the financial statements and are estimated based on the circumstances and information available at the time of recognition. They are subject to adjustment if new information becomes available.

**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 \$2,646,251 for the year ended December 31, 2017.

**Investment income**

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

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

**New accounting pronouncement**

In August 2016, FASB issued ASU No. 2016-14, Not-for-Profit Entities, (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The objective of this ASU is to improve the current net asset classification requirements and information presented in the financial statements and notes about not-for-profit entities' liquidity, financial performance, and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and therefore, the Cleveland APL will be required to adopt and implement this standard for the year ending December 31, 2018.

**3. CAPITAL CAMPAIGN AND RELATED COMMITMENTS**

In recent years, the Cleveland APL's programs and the needs of animals have evolved well beyond the design of the Cleveland APL's existing facility. When the Cleveland APL of today was designed in the late 1990's, no one could have envisioned the incredible level of lifesaving care, whether veterinary or other types of care and support, the Cleveland APL would be providing to shelter animals today. They also could not have envisioned the pressing need for new or expanded programs and services to help animals living in underserved neighborhoods in Cleveland. Gone are the days when the Cleveland APL's animals had a limited amount of time in our care or when the care we could provide was very limited and basic. Gone are the days when animals were not with the Cleveland APL long enough to worry about the impact of stress on their health and well-being. Whether animals come to the Cleveland APL for rehoming, as victims of abuse or neglect, belong to other shelters or rescue groups that need additional resources and support, or are beloved pets living in underserved neighborhoods in Cleveland, the Cleveland APL of today needs to be here to help them and needs a facility that will support these evolving needs and best practices in animal sheltering and welfare.

In order to continue to grow the Cleveland APL's programs and reach and help animals in ways the Cleveland APL is unable or struggling to help now, the Cleveland APL needs to realign the design of the facility to fully support the lifesaving work occurring today and prepare for the needs of tomorrow. For example, the Cleveland APL needs to: (1) transition the animal admitting area into an animal resource center where the Cleveland APL can help pet parents make the best possible decisions for their animals, and in a way that respects the needs of both the animals and people; (2) redesign the animal housing areas and cages to provide a more enriched and less stressful environment for animals that are in care for longer periods of time while they undergo treatment; (3) create segregated spaces where animals with differing medical or behavioral needs can be safely and effectively treated for their specific concerns; and (4) expand and redesign the veterinary clinic so the Cleveland APL can offer care to lower income pet owners, preserve the human-animal bond, and keep animals with the people they love.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**3. CAPITAL CAMPAIGN AND RELATED COMMITMENTS (Continued)**

The Cleveland APL is planning a capital campaign to raise funds that will allow the Cleveland APL to complete a significant renovation to the facility. As part of this campaign, the Cleveland APL has engaged professional services to provide campaign strategy and prospect management. Assuming no such termination, the Cleveland APL expects to pay \$155,700 in 2018 for these consulting services.

The Cleveland APL has also engaged the services of an architectural firm and a consulting firm to act as the Project Manager. The Cleveland APL is committed to pay \$357,800, plus reimbursable expenses, to fulfill the terms of these contracts. As of December 31, 2017, the Cleveland APL has been billed \$17,800 under these contracts.

**4. 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 recognized the Cleveland APL's 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, 2017, 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, 2014 through December 31, 2017.

**5. 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 and improvements	10-40 years
Equipment and fixtures	5-10 years
Motor vehicles	5 years

Depreciation expense for the year ended December 31, 2017 was \$250,000.

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**6. INVESTMENTS**

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

<u>December 31, 2017</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Appreciation (Depreciation)</u>
Equities	\$ 5,435,253	\$ 1,866,669
Fixed income	1,743,347	(21,172)
Cash and cash equivalents	626,518	-
	<u>\$ 7,805,118</u>	<u>\$ 1,845,497</u>

Investment returns are as follows:

<u>December 31, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Dividends and interest	\$ 123,889	\$ 3,210	\$ 3,210
Net realized gains	151,186	3,927	3,927
Net unrealized gains	700,992	36,566	-
Investment fees	(20,415)	(532)	(532)
	<u>\$ 955,652</u>	<u>\$ 43,171</u>	<u>\$ 6,605</u>

**7. FUNCTIONAL EXPENSES**

The following is a summary of expenses by function:

Programs	\$ 3,855,356
Management and general	299,811
Fundraising	968,367
	<u>\$ 5,123,534</u>

**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**8. 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 in employer matching contributions upon completing twelve months of consecutive service or 1,000 hours of consecutive service. For the year ended December 31, 2017, contributions and plan expenses were \$46,004.

**9. 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, 2017:

Animal care programs	\$ 80,949
General operating	3,926,789
Capital projects	462,766
Spay/Neuter programs	45,244
	<u>\$ 4,515,748</u>

The Cleveland APL released net assets of \$350,511 from temporary restrictions during the year ended December 31, 2017 by incurring expenditures which satisfied their restricted purposes.

**10. 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, 2017, 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.



**THE CLEVELAND ANIMAL PROTECTIVE LEAGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**11. 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 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.

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**11. 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, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ -	\$ 66,289	\$ 328,841	\$ 395,130
Board-designated endowments	7,092,488	-	-	7,092,488
Total	<u>\$ 7,092,488</u>	<u>\$ 66,289</u>	<u>\$ 328,841</u>	<u>\$ 7,487,618</u>

Changes in endowment net assets as of December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,154,281	\$ 23,118	\$ 322,236	\$ 6,499,635
Investment income	123,082	3,210	3,210	129,502
Net realized gains	150,548	3,927	3,927	158,402
Net unrealized gains	700,992	36,566	-	737,558
Investment fees	(20,415)	(532)	(532)	(21,479)
Appropriated for expenditures	(317,500)	-	-	(317,500)
Other:				
Prior year unspent appropriations	<u>301,500</u>	<u>-</u>	<u>-</u>	<u>301,500</u>
Endowment net assets, end of year	<u>\$ 7,092,488</u>	<u>\$ 66,289</u>	<u>\$ 328,841</u>	<u>\$ 7,487,618</u>

During the year ended December 31, 2017, the Cleveland APL appropriated \$317,500 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.

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**12. 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.

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**12. 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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Funds held in trust by others	\$ -	\$ -	\$ 2,884,307	\$ 2,884,307
Investments:				
Equities	5,435,253	-	-	5,435,253
Fixed income	1,743,347	-	-	1,743,347
Cash and cash equivalents	626,518	-	-	626,518
Total	<u>\$ 7,805,118</u>	<u>\$ -</u>	<u>\$ 2,884,307</u>	<u>\$ 10,689,425</u>

Level 3 Assets Year Ended December 31, 2017

	<u>Funds Held in Trust by Others</u>
Balance, beginning of year	\$ 2,574,612
Distributions received	(127,550)
Appreciation	<u>437,245</u>
Balance, end of year	<u>\$ 2,884,307</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.

*Equities* – Equities 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 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.

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**13. PENDING LITIGATION**

During the normal course of operations, the Cleveland APL may be named in claims or legal actions. The Cleveland APL follows guidance, as required by the Contingencies Topic of the FASB Accounting Standards Codification, in determining when such a contingency requires recognition or disclosure. The Cleveland APL's management and legal counsel assess such contingent liabilities and have determined that no such claims or legal action fit the criteria for recognition or disclosure for the year ended December 31, 2017.

**14. 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, 2016, from which the summarized information was derived.

**15. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 25, 2018, which is the date the financial statements were available to be issued.