

ANIMAL CARE AND CONTROL TEAM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
AND
INDEPENDENT AUDITORS' REPORT

ANIMAL CARE AND CONTROL TEAM

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FRIEDMAN LLP[®]

ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Animal Care and Control Team
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of Animal Care and Control Team (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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.

Auditors' 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 of America. Those standards require that we plan and perform the audits 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 auditors' 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Care and Control Team as of June 30, 2017 and 2016, and the changes in its nets assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Freedman LLP

Philadelphia, Pennsylvania
March 19, 2018

ANIMAL CARE AND CONTROL TEAM
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2017	2016
ASSETS		
Current assets		
Cash	\$ 993,738	\$ 1,038,272
Accounts receivable	1,512	28,962
Grant receivable	-	75,000
Prepaid expenses	192,316	191,449
Total current assets	1,187,566	1,333,683
Property and equipment, net of accumulated depreciation	75,671	112,310
Total assets	\$ 1,263,237	\$ 1,445,993
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 172,814	\$ 155,710
Accrued expenses	278,659	235,534
Accrued payroll tax assessment, interest and penalties	134,202	120,370
Total liabilities	585,675	511,614
Commitments		
Net (deficit) assets		
Unrestricted	(186,037)	16,365
Temporarily restricted	863,599	918,014
Total net assets	677,562	934,379
Total liabilities and net assets	\$ 1,263,237	\$ 1,445,993

See notes to financial statements.

ANIMAL CARE AND CONTROL TEAM

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended June 30,			
	2017		2016	
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
City contract	\$ 4,069,942	\$ -	\$ 4,069,942	\$ 4,069,942
Grants	57,480	45,000	102,480	25,000
Contributions (including in-kind contributions of \$368,810 in 2017 and \$368,558 in 2016)	620,244	29,769	650,013	643,103
Fees	383,939	-	383,939	417,035
Vet services	53,457	-	53,457	41,923
Other income	22,627	-	22,627	27,497
Net assets released from restrictions	129,184	(129,184)	-	(106,857)
Total support and revenues	5,336,873	(54,415)	5,282,458	5,279,929
Expenses				
Program services	4,941,568	-	4,941,568	5,085,151
Management and general	416,614	-	416,614	210,455
Fund-raising	167,261	-	167,261	192,212
Total expenses	5,525,443	-	5,525,443	5,487,818
Other expenses				
Payroll tax assessment, interest and penalties	13,832	-	13,832	13,535
Changes in net assets	(202,402)	(54,415)	(256,817)	(221,424)
Net assets, beginning of year	16,365	918,014	934,379	237,789
Net (deficit) assets, end of year	\$ (186,037)	\$ 863,599	\$ 677,562	\$ 16,365
				\$ 918,014
				\$ 934,379

See notes to financial statements.

ANIMAL CARE AND CONTROL TEAM

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended June 30,							
	2017		2016					
	Program Services	Management and General	Fund-Raising	Total	Program Services	Management and General	Fund-Raising	Total
Personnel and related expenses								
Salaries	\$ 2,642,215	\$ 217,675	\$ 93,135	\$ 2,953,025	\$ 2,678,351	\$ 70,390	\$ 82,835	\$ 2,831,576
Payroll taxes and unemployment compensation	395,426	32,577	13,938	441,941	369,850	9,774	11,338	390,962
Employee benefits	355,396	29,279	12,527	397,202	312,748	8,265	9,587	330,600
Total personnel and related expenses	3,393,037	279,531	119,600	3,792,168	3,360,949	88,429	103,760	3,553,138
Accounting	-	21,041	-	21,041	-	27,767	-	27,767
Advertising	178	1,060	-	1,238	2,208	-	11,535	13,743
Bank and credit card processing fees	663	18,038	-	18,701	552	10,890	122	11,564
Cleaning and disposal	29,168	608	608	30,384	30,113	627	627	31,367
Communications	17,453	14,726	249	32,428	28,084	6,663	298	35,045
Depreciation expense	47,293	985	985	49,263	48,475	1,010	1,010	50,495
Equipment lease	15,829	7,073	129	23,031	17,969	4,504	189	22,662
Event supplies	337	-	3,317	3,654	2,267	-	11,525	13,792
Information technology	48,908	1,019	1,019	50,946	52,423	1,092	1,092	54,607
Insurance	144,010	3,000	3,000	150,010	98,003	2,042	2,042	102,087
Lab fees	101,232	-	-	101,232	99,698	-	-	99,698
Medical supplies	503,915	-	-	503,915	646,169	-	-	646,169
Miscellaneous	14,952	15,660	9,026	39,638	21,338	14,038	4,855	40,231
Office supplies	14,102	4,349	256	18,707	17,789	4,279	89	22,157
Pet food	44,401	-	-	44,401	57,685	1,239	-	58,924
Postage	8,313	8,790	5,559	22,662	26,699	5,197	24,241	56,137
Printing	17,783	2,784	15,986	36,553	13,056	2,140	20,008	35,204
Professional fees	11,640	20,060	-	31,700	14,430	30,124	30	44,584
Occupancy	342,819	7,142	7,142	357,103	342,819	7,142	7,142	357,103
Repairs and maintenance	11,710	244	244	12,198	19,958	416	416	20,790
Retail expense	4,769	-	-	4,769	2,190	-	2,712	4,902
Shelter supplies	142,144	5,486	-	147,630	150,630	787	438	151,855
Training and education	-	-	-	-	690	-	-	690
Uniforms	2,994	4,495	-	7,489	10,826	2,069	37	12,932
Vehicles	23,918	523	141	24,582	20,131	-	44	20,175
	1,548,531	137,083	47,661	1,733,275	1,724,202	122,026	88,452	1,934,680
	\$ 4,941,568	\$ 416,614	\$ 167,261	\$ 5,525,443	\$ 5,085,151	\$ 210,455	\$ 192,212	\$ 5,487,818

See notes to financial statements.

ANIMAL CARE AND CONTROL TEAM

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2017	2016
Cash flows from operating activities		
Changes in net assets	\$ (256,817)	\$ (276,853)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Depreciation	49,263	50,495
Changes in operating assets and liabilities		
Accounts receivable	27,450	(24,034)
Grant receivable	75,000	319,342
Prepaid expenses	(867)	(49,049)
Accounts payable	17,104	8,142
Accrued expenses	43,125	78,917
Accrued payroll tax assessment, interest and penalties	13,832	(24,594)
Net cash (used in) provided by operating activities	(31,910)	82,366
Cash flows used in investing activities,		
Purchase of property and equipment	(12,624)	(4,600)
Net (decrease) increase in cash	(44,534)	77,766
Cash, beginning of year	1,038,272	960,506
Cash, end of year	\$ 993,738	\$1,038,272
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	-	\$ 19,821

See notes to financial statements.

ANIMAL CARE AND CONTROL TEAM

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Animal Care and Control Team ("ACCT"), is a nonprofit organization incorporated on November 17, 2011 in the State of Pennsylvania. The primary purpose of the Organization is to provide shelter, care, and lifesaving efforts for homeless, abandoned, and abused animals and to protect the health and welfare of the citizens of Philadelphia, thereby providing a benefit to all of the citizens of the City of Philadelphia (the "City") regardless of race or economic status.

Basis of Presentation

The financial statements of ACCT have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Classification of Net Assets

Net assets and changes in net assets are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted – Net assets whose use by ACCT is subject to donor-imposed stipulations that can be fulfilled by actions of ACCT pursuant to these stipulations or that expire by the passage of time.

Permanently restricted – Net assets that the donor stipulates must be maintained permanently by ACCT. At June 30, 2017 and 2016, there were no permanently restricted net assets.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts owed to ACCT for program services rendered. Amounts are recorded the time the services are provided. Management has determined that no allowance for doubtful accounts is necessary as June 30, 2017 and 2016.

Property and Equipment and Depreciation

Assets purchased are stated at cost and assets donated are stated at estimated fair market value on the date of receipt. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 5 years. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the statements of activities and changes in net assets.

ANIMAL CARE AND CONTROL TEAM

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation (Continued)

Maintenance, repairs and minor replacements are expensed as incurred. Replacements and betterments which increase the service capacity or prolong the service life beyond that originally contemplated are capitalized.

Ownership of property and equipment acquired with the City contract funds is vested with and may revert back to the City under certain circumstances. However, due to the nature of the programs and the relationship of ACCT with the City, management feels that the financial statements of ACCT are more accurate by capitalizing these assets. As such, upon ACCT taking over the operations of animal care and control for the City, there was pre-existing property and equipment that ACCT has been given the right to use by the City and are not reflected in the financial statements.

Contract Revenue

ACCT is substantially funded by a contract with the City to provide services to the citizens of the City. Contract revenue is recognized as earned. Funds are advanced to ACCT based on the budget as set forth in the contract and recorded as deferred revenue. Actual expenses related to the contract are then billed and deferred revenue is reduced. At June 30, 2017 and 2016, there was no deferred revenue related to the City contract.

In addition, as part of the service provider agreement with the City, ACCT enforces and sells, on behalf of the City, the use of animal and animal related licenses and these transactions are treated as agency transactions. For this service, ACCT is paid an administrative fee. See Note 9 for further details.

Support and Revenue Recognition

Contributions, including unconditional promises to give, are recorded as revenue when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

ACCT reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Gifts for which the donor restriction expires in the same year as the receipt of the gift are included in unrestricted support.

ANIMAL CARE AND CONTROL TEAM

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods and Services

Facility space, legal services and shelter supplies contributed to ACCT have been recognized where there is a clearly measurable and objective basis for determining its value (see Note 8).

A substantial number of volunteers donate their time to ACCT for program services. No amounts have been included in the financial statements for such services since the volunteers' time does not meet the criteria necessary for financial statement recognition.

Advertising

ACCT's policy is to expense advertising costs as incurred. Advertising costs for the years ended June 30, 2017 and 2016 were \$1,238 and \$13,743, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that cannot be directly attributed to a specific program are allocated across program and supporting services based upon estimates by management.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

ACCT qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code ("Code") and similar state statute, and has been classified as an organization that is not a private foundation under Section 509(a) of the Code. Therefore, there is no provision for federal or state income taxes.

ANIMAL CARE AND CONTROL TEAM
NOTES TO FINANCIAL STATEMENTS

2 - GRANT RECEIVABLE

As of June 30, 2016, grant receivable consists of the balance due on a \$1,000,000 grant received during the year ended June 30, 2015 to support a new adoption center (see Note 7). The amount to be collected in future years was calculated and recorded at its present value using a discount rate of 4.0%. The balance as of June 30, 2016 was collected in the year ended June 30, 2017.

Grant receivable consists of the following:

	June 30,	
	2017	2016
Gross receivable	\$ -	\$ 75,000
Less unamortized discount	-	-
	<u>\$ -</u>	<u>\$ 75,000</u>

3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30,	
	2017	2016
Vehicles	\$ 103,786	\$ 103,786
Equipment	178,911	178,911
Leasehold improvements	17,224	4,600
	<u>299,921</u>	<u>287,297</u>
Less accumulated depreciation	224,250	174,987
	<u>\$ 75,671</u>	<u>\$ 112,310</u>

4 - ACCRUED PAYROLL TAX ASSESSMENT

During 2014, ACCT received notices from the Internal Revenue Service (IRS) and the City of Philadelphia informing them that they owe penalties and interest for late filings of payroll taxes for the years ended June 30, 2013 and 2012, as well as unpaid payroll taxes during each of those years.

ANIMAL CARE AND CONTROL TEAM

NOTES TO FINANCIAL STATEMENTS

4 - ACCRUED PAYROLL TAX ASSESSMENT (Continued)

During those years, ACCT was utilizing a third party payroll service provider to file and remit its quarterly payroll tax returns and payments to the IRS. During this time, the payroll taxes were withheld and paid by ACCT but not all of the deposits were remitted by the third party payroll service provider and some were not made in a timely manner. Management has filed a claim with ACCT's insurance company. In addition, ACCT has retained an attorney to seek legal action against and financial remedy from the third party payroll service provider to try and recover the misappropriated funds. In July of 2013, ACCT switched payroll service providers to a new service organization and all filings and remittances with the new provider have been made timely.

During the year ended June 30, 2016, the IRS levied ACCT's bank account for \$38,979, which settled the balance due to the IRS in full. As of the date of this report, there is no liability due to the IRS. The remaining liability is due to the City of Philadelphia. Management has determined that the total amount owed to the City of Philadelphia for payroll taxes not remitted plus interest and penalties is \$134,202 and \$120,370, respectively, as of June 30, 2017 and 2016. This amount has been recorded as a liability. The City does not currently have any liens or encumbrances on ACCT's assets.

5 - CONCENTRATIONS OF CREDIT RISK

ACCT maintains its primary cash balances at one financial institution located in the Greater Philadelphia area. At times during the year, ACCT may have cash balances that exceed the amount insured by the Federal Deposit Insurance Corporation (up to \$250,000). As of June 30, 2017, uninsured cash balances totaled approximately \$717,000.

6 - COLLECTIVE BARGAINING UNIT

ACCT employees consisting of all full and part-time Kennel Attendants, Veterinary Nurses, Adoption Counselors, Lifesaving Counselors, Customer Service Representatives, Dispatchers and Animal Control Officers, have appointed The American Federation of State, County, and Municipal Employees ("Union") as their collective bargaining agent. The terms of the previous agreement, executed in September 2013, were effective from June 1, 2013 through June 30, 2016. The terms of the most recent agreement, executed in September 2016, are effective from July 1, 2016 through June 30, 2019. The Union represents approximately 85% of the full-time work force of ACCT.

ANIMAL CARE AND CONTROL TEAM
NOTES TO FINANCIAL STATEMENTS

7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	June 30,	
	2017	2016
Cat shelter supplies	\$ 3,582	\$ 3,582
Purchase of kennels and improvements to animal housing	3,355	9,621
Expand animal welfare resources and information to pet owners	-	16,884
Medical care and other surgeries for cats	17,450	-
Medical support, other than spay-neuter for cats	38,909	-
New adoption center	800,303	887,927
	\$ 863,599	\$ 918,014

8 - IN-KIND CONTRIBUTIONS

The City of Philadelphia donates the use of the property and other related occupancy costs located at 111 W. Hunting Park Avenue, Philadelphia, Pennsylvania to ACCT. There is no amount paid for the use of the property to the City of Philadelphia and there is no lease agreement. In accordance with generally accepted accounting principles, ACCT has recorded \$357,103 as in-kind contribution and occupancy expense for each of the years ended June 30, 2017 and 2016. This amount represents the fair rental value, as determined by the City of Philadelphia, for the use of this facility.

Revenues and expenses include donated legal services of \$6,269 and \$11,455 for the years ended June 30, 2017 and 2016, respectively, which benefited the administration and programs of ACCT. In addition, revenues and expenses include donated shelter supplies of \$5,438 and \$0 for the years ended June 30, 2017 and 2016, respectively.

ANIMAL CARE AND CONTROL TEAM

NOTES TO FINANCIAL STATEMENTS

9 - CONCENTRATION/RELATED PARTY TRANSACTIONS

During each of the years ended June 30, 2017 and 2016, ACCT received \$4,069,942 in contract revenue from the City of Philadelphia. The board chair of ACCT is also an employee of the City of Philadelphia and as such has a significant influence over the operations of ACCT. During 2017 and 2016, the City of Philadelphia donated the use of its facilities as previously described in Note 8. In addition, the pet license program generated approximately \$180,000 and \$218,000 in agency transactions that were collected by ACCT and remitted to the City during the years ended June 30, 2017 and 2016, respectively. ACCT earned approximately \$19,000 and \$38,000 in fees from the City for the administration of the pet license program during the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, the amount due to the city for licenses sold was \$27,712 and \$29,888, respectively.

10 - UNCERTAIN TAX POSITIONS

Management of ACCT considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities, including changes to ACCT's status as a not-for-profit entity. Management believes ACCT met the requirements to maintain its tax-exempt status and has not identified any uncertain tax positions subject to the unrelated business income tax that require recognition or disclosure in the accompanying financial statements.

11 - COMMITMENTS AND CONTINGENCIES

In the course of its business operations, ACCT is involved in various legal matters, which are generally covered by insurance. As of the report date, management believes there is no exposure to legal matters that would be material to the financial statements or are not adequately covered by insurance.

12 - SUBSEQUENT EVENTS

ACCT has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 19, 2018, the date on which the financial statements were available to be issued.