

# **The Anti-Cruelty Society**

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**Financial Report  
with Additional Information  
October 31, 2017**

# **The Anti-Cruelty Society**

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## Independent Auditor's Report

To the Board of Directors  
The Anti-Cruelty Society

We have audited the accompanying financial statements of The Anti-Cruelty Society (the "Society"), which comprise the statement of financial position as of October 31, 2017 and 2016 and the related statements of activities and changes in net assets 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 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 Anti-Cruelty Society as of October 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

January 16, 2018

# The Anti-Cruelty Society

## Statement of Financial Position October 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>				
Cash	\$ 370,869	\$ 256,123	\$ -	\$ 626,992
Investments (Note 2)	31,988,527	631,976	1,850,618	34,471,121
Receivables:				
Estates and trusts receivable - Net (Note 3)	964,911	-	-	964,911
Accrued interest and dividends receivable	94,858	-	-	94,858
Other receivables	29,830	400	-	30,230
Inventories	115,535	-	-	115,535
Prepaid expenses	145,574	-	-	145,574
Beneficial interests in trusts (Notes 2, 4, and 9)	-	-	1,255,631	1,255,631
Property and equipment - Net (Note 5)	16,487,763	-	-	16,487,763
<b>Total assets</b>	<b>\$ 50,197,867</b>	<b>\$ 888,499</b>	<b>\$ 3,106,249</b>	<b>\$ 54,192,615</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 176,464	\$ -	\$ -	\$ 176,464
Compensation payable	171,961	-	-	171,961
Deferred revenue	21,010	-	-	21,010
Self-insurance reserve	30,000	-	-	30,000
Disability reserve	15,000	-	-	15,000
Charitable gift annuity payable	9,347	-	-	9,347
<b>Total liabilities</b>	<b>423,782</b>	<b>-</b>	<b>-</b>	<b>423,782</b>
<b>Net Assets</b> (Notes 7 and 9)	<b>49,774,085</b>	<b>888,499</b>	<b>3,106,249</b>	<b>53,768,833</b>
<b>Total liabilities and net assets</b>	<b>\$ 50,197,867</b>	<b>\$ 888,499</b>	<b>\$ 3,106,249</b>	<b>\$ 54,192,615</b>

# The Anti-Cruelty Society

## Statement of Financial Position October 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>				
Cash	\$ 234,309	\$ 214,214	\$ -	\$ 448,523
Investments (Note 2)	30,609,408	469,060	1,850,618	32,929,086
Receivables:				
Estates and trusts receivable - Net (Note 3)	139,033	27,473	-	166,506
Accrued interest and dividends receivable	100,665	-	-	100,665
Other receivables	3,582	550	-	4,132
Inventories	137,807	-	-	137,807
Prepaid expenses	136,344	-	-	136,344
Beneficial interests in trusts (Notes 2, 4, and 9)	-	-	1,203,253	1,203,253
Property and equipment - Net (Note 5)	17,401,788	-	-	17,401,788
<b>Total assets</b>	<b>\$ 48,762,936</b>	<b>\$ 711,297</b>	<b>\$ 3,053,871</b>	<b>\$ 52,528,104</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 859,386	\$ -	\$ -	\$ 859,386
Compensation payable	335,244	-	-	335,244
Deferred revenue	9,050	-	-	9,050
Self-insurance reserve	30,000	-	-	30,000
Disability reserve	20,000	-	-	20,000
Charitable gift annuity payable	22,356	-	-	22,356
<b>Total liabilities</b>	<b>1,276,036</b>	<b>-</b>	<b>-</b>	<b>1,276,036</b>
<b>Net Assets</b> (Notes 7 and 9)	<b>47,486,900</b>	<b>711,297</b>	<b>3,053,871</b>	<b>51,252,068</b>
<b>Total liabilities and net assets</b>	<b>\$ 48,762,936</b>	<b>\$ 711,297</b>	<b>\$ 3,053,871</b>	<b>\$ 52,528,104</b>

# The Anti-Cruelty Society

## Statement of Activities and Changes in Net Assets

	Year Ended							
	October 31, 2017				October 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>								
General public, corporate, and foundation support	\$ 3,407,246	\$ 136,207	\$ -	\$ 3,543,453	\$ 3,102,070	\$ 246,900	\$ -	\$ 3,348,970
Estate and annuity income	2,283,034	-	-	2,283,034	2,662,311	-	120,856	2,783,167
Shelter, clinical, and other service income	1,018,845	-	-	1,018,845	897,312	-	-	897,312
Retail sales and other revenue	72,157	-	-	72,157	64,470	-	-	64,470
Special event revenue	254,421	-	-	254,421	239,407	-	-	239,407
Interest and dividends	806,729	48,942	-	855,671	770,235	45,583	-	815,818
Total revenue and support	7,842,432	185,149	-	8,027,581	7,735,805	292,483	120,856	8,149,144
<b>Net Assets Released from Restrictions</b>	204,325	(204,325)	-	-	185,116	(185,116)	-	-
Total revenue, support, and net assets released from restrictions	8,046,757	(19,176)	-	8,027,581	7,920,921	107,367	120,856	8,149,144
<b>Expenses</b>								
Program services:								
Shelter services	3,608,628	-	-	3,608,628	3,504,638	-	-	3,504,638
Clinical and veterinary services	2,322,624	-	-	2,322,624	2,250,126	-	-	2,250,126
Community programs	728,315	-	-	728,315	664,301	-	-	664,301
Auxiliary services	166,957	-	-	166,957	61,098	-	-	61,098
Total program services	6,826,524	-	-	6,826,524	6,480,163	-	-	6,480,163
Support services:								
Fundraising	1,192,255	-	-	1,192,255	1,164,148	-	-	1,164,148
Special events	137,041	-	-	137,041	123,295	-	-	123,295
General and administrative	657,789	-	-	657,789	668,336	-	-	668,336
Total support services	1,987,085	-	-	1,987,085	1,955,779	-	-	1,955,779
Total expenses	8,813,609	-	-	8,813,609	8,435,942	-	-	8,435,942
<b>(Decrease) Increase in Net Assets - Before nonoperating revenue and gains</b>	(766,852)	(19,176)	-	(786,028)	(515,021)	107,367	120,856	(286,798)
<b>Net Realized and Unrealized Gain on Investments - Net of brokerage fees of \$139,816 and \$146,107 in 2017 and 2016, respectively</b>	3,041,027	196,378	-	3,237,405	345,678	21,992	-	367,670
<b>Change in Value of Charitable Gift Annuities</b>	13,010	-	-	13,010	1,316	-	-	1,316
<b>Change in Fair Value of Beneficial Interests in Trusts</b>	-	-	52,378	52,378	-	-	41,244	41,244
<b>Increase (Decrease) in Net Assets</b>	2,287,185	177,202	52,378	2,516,765	(168,027)	129,359	162,100	123,432
<b>Net Assets - Beginning of year</b>	47,486,900	711,297	3,053,871	51,252,068	47,654,927	581,938	2,891,771	51,128,636
<b>Net Assets - End of year</b>	<b>\$ 49,774,085</b>	<b>\$ 888,499</b>	<b>\$ 3,106,249</b>	<b>\$ 53,768,833</b>	<b>\$ 47,486,900</b>	<b>\$ 711,297</b>	<b>\$ 3,053,871</b>	<b>\$ 51,252,068</b>

See Notes to Financial Statements.

# The Anti-Cruelty Society

## Statement of Cash Flows

	Year Ended	
	October 31, 2017	October 31, 2016
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 2,516,765	\$ 123,432
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	1,073,045	1,034,180
Change in value of charitable gift annuities	(13,010)	(1,316)
Change in fair value of beneficial interest in trusts	(52,378)	(41,244)
Net realized and unrealized gains on investments	(3,237,405)	(367,670)
Noncash donations of investments	(122,972)	(37,542)
Changes in operating assets and liabilities which (used) provided cash:		
Estate and trusts, pledges, and other receivables	(824,503)	762,481
Accrued interest and dividend receivable	5,807	544
Inventory	22,272	2,247
Prepaid expenses	(9,230)	(52,009)
Accounts payable	5,050	(30,037)
Compensation payable	(163,283)	21,698
Deferred revenue	11,960	5,510
Self-insurance reserve	-	(5,000)
Disability reserve	(5,000)	(5,000)
Net cash (used in) provided by operating activities	(792,882)	1,410,274
<b>Cash Flows from Investing Activities</b>		
Purchase of investment securities	(18,702,979)	(23,760,509)
Proceeds from sale of investments	20,521,322	22,887,623
Capital expenditures	(846,992)	(579,882)
Net cash provided by (used in) investing activities	971,351	(1,452,768)
<b>Net Increase (Decrease) in Cash</b>	178,469	(42,494)
<b>Cash - Beginning of year</b>	448,523	491,017
<b>Cash - End of year</b>	<b>\$ 626,992</b>	<b>\$ 448,523</b>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for capital expenditures recorded in accounts payable</b>	<b>\$ 26,750</b>	<b>\$ 714,722</b>

# The Anti-Cruelty Society

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## Notes to Financial Statements October 31, 2017 and 2016

### Note I - Nature of Activities and Significant Accounting Policies

**Nature of Organization** - The Anti-Cruelty Society (the "Society") is a private, nonprofit, comprehensive animal welfare organization chartered in Illinois. Since 1899, the Society has been offering a variety of programs and services to build a community of caring by helping pets and educating people. As an open-admission shelter, the Society cares for all animals and will not turn away an animal in need through key programs, including adoption, fostering, and humane investigations. The veterinary and clinical services offer a low-cost spay/neuter clinic as well as general veterinary services to clients who cannot afford private veterinary care. There is also a focus on community education and outreach to provide the public with programs that engage people of all ages to be aware of the needs of animals. In addition, the Society offers programs such as dog training, a free behavior hotline, three rehabilitation and treatment centers, and a number of pet-related programs such as pet loss and grief group sessions, pet visitation programs, and pet first aid and CPR classes. The mission of the Society is to meet the needs of animals while promoting responsible pet ownership and helping prevent animal cruelty, abuse, and neglect. The Society's services and programs include the following:

Shelter Services: As an open-door shelter which accepts any animals in need 365 days a year, the Society works to match adoptable animals with suitable and forever homes. The foster program provides temporary homes for animals in need of special care prior to permanent placement. The Society's Human Investigations Department investigates reports of animal cruelty and abuse and provides pick-up and rescue of neglected, abused, injured, and stray or unwanted animals. These humane investigations help educate the public on responsible pet ownership, encourage relinquishment of animals in untenable situations, and ultimately rescue hundreds of abused and traumatized animals each year.

Veterinary and Clinical Services: The Society maintains a veterinary staff providing low-cost spay/neuter services to pets of the general public and to other animal welfare groups who do not have access to low-cost services. The Society also operates a charity veterinary clinic providing services to clients who cannot afford these vital services for their companion animals. The veterinary staff provide immediate post-adoption services for animals adopted through the shelter and full veterinary services for animals in the Society's care.

# The Anti-Cruelty Society

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## Notes to Financial Statements October 31, 2017 and 2016

### Note I - Nature of Activities and Significant Accounting Policies (Continued)

Community Outreach: The Society's commitment to animal welfare extends beyond the shelter to include classrooms, neighborhood centers, and local community organizations. In keeping with the Society's mission to rescue animals from cruelty and neglect by advising and educating pet owners and the general public about how to care for animals, the Society offers a wide variety of programs and services to the general public. Working with Chicago's public and private schools and the general community, the Community Programs department offers age-appropriate presentations and engagement opportunities all year long. In addition to the focus on programming, the Society manages a very strong volunteer program with nearly 600 regular volunteers who augment the work of the Society. A vibrant corporate volunteer component and a robust fostering program also support the work of the Society to care for, protect, and educate people about compassionate care for any animal in need.

Significant accounting policies are as follows:

**Classification of Net Assets** - Net assets of the Society are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Society's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

**Public Support and Revenue Recognition** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

**Cash** - The Society maintains its cash in bank deposit accounts at Bank of America and BMO Harris, which at times may exceed federally insured limits. The Society has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on its cash.

**Estates** - The Society is the beneficiary of various wills and trusts, the total realizable amount of which is not presently determinable. Such amounts are recorded when a clear title is established and the proceeds are clearly measurable.

# The Anti-Cruelty Society

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## Notes to Financial Statements October 31, 2017 and 2016

### **Note I - Nature of Activities and Significant Accounting Policies (Continued)**

The Society records estates and trusts receivable at net collectible value. Management reviews all the individual accounts receivable at October 31 and establishes an allowance for uncollectible accounts based on specific assessment of each account as necessary. All amounts deemed uncollectible are charged against income for that fiscal year. The allowance for uncollectible accounts was \$327,907 and \$57,092 at October 31, 2017 and 2016, respectively.

**Beneficial Interests in Trust** - The Society is the income beneficiary under various trusts; the assets of the trusts are not controlled by the Society. In the absence of donor-imposed conditions, the Society recognizes its beneficial interest in a trust as a contribution in the period in which it receives notice that the trust agreement conveys an unconditional right to receive benefits. Beneficial interest in trusts is stated at the estimated fair value of the assets from the trusts based on the percentage of the trust designated to the Society applied to the total fair value of the trust, which is based primarily on quoted market prices. The Society's share of the trust's assets is included in the statement of financial position and is classified as permanently restricted net assets. Changes in the fair value of the underlying trust assets are recognized in the statement of activities and changes in net assets in the period in which they occur.

**Donated Services and Assets** - Certain donated services and materials are recognized as support in the statement of activities and changes in net assets. The value of these services is determined based on estimated fair value. For the years ended October 31, 2017 and 2016, the Society recorded contributions totaling \$90,889 and \$97,199, respectively, for donated animal food and supplies and stock donations.

A number of individuals volunteer their time and perform a variety of tasks that assist the Society with its programs and administration. These services are not reflected in the financial statements because the services are not recordable under accounting principles generally accepted in the United States of America.

**Investments** - Investments are carried at fair value, with unrealized and realized gains or losses recorded in investment income. Investment gains and losses and investment income are reported in the statement of activities and changes in net assets as increases or decreases in unrestricted net assets. Interest income is recorded on the accrual basis. Realized gains and losses resulting from the sale of investments are reported in the statement of activities and changes in net assets as of the trade date. Contributions of investments are recorded at fair value at the date of the gift.

The Society's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the financial statements.

# The Anti-Cruelty Society

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## Notes to Financial Statements October 31, 2017 and 2016

### **Note I - Nature of Activities and Significant Accounting Policies (Continued)**

**Property and Equipment** - Property and equipment, with an initial value of \$5,000 and an estimated useful life of at least two years, are recorded at cost when purchased and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

**Inventory** - Inventories consist of store merchandise and clinic and shelter materials. The Society values inventory at the lower of cost or market on a first-in, first-out (FIFO) method.

**Functional Allocation of Expenses** - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on square footage, salaries, and full-time equivalent employees, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**Federal Income Taxes** - The Society is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Society and recognize a tax liability if the Society has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities.

**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 revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

# The Anti-Cruelty Society

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## Notes to Financial Statements October 31, 2017 and 2016

### Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

**Upcoming Accounting Change** - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Society, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Society's year ending October 31, 2019 and thereafter and must be applied on a retrospective basis. The Society has determined that the standard will have an impact on the financial statements by changing the reporting of net assets and updates to various disclosures. The Society is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

**Upcoming Accounting Change** - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Society's year ending October 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Society is reviewing current revenue streams to determine the standard's effect on the financial statements.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including January 16, 2018, which is the date the financial statements were available to be issued.

### Note 2 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 2 - Fair Value Measurements (Continued)

The following tables present information about the Society's assets measured at fair value on a recurring basis at October 31, 2017 and 2016 and the valuation techniques used by the Society to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Society has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Society's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

#### Assets Measured at Fair Value on a Recurring Basis at October 31, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at October 31, 2017
Investments:				
Fixed-income securities	\$ -	\$ 14,450,001	\$ -	\$ 14,450,001
Fixed-income bond fund	1,738,960	-	-	1,738,960
Money market funds	309,049	-	-	309,049
Equity mutual funds	6,208,979	-	-	6,208,979
Common stocks	11,764,132	-	-	11,764,132
Total investments	20,021,120	14,450,001	-	34,471,121
Other assets - Beneficial interests in trusts	-	-	1,255,631	1,255,631
Total assets	\$ 20,021,120	\$ 14,450,001	\$ 1,255,631	\$ 35,726,752

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 2 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at October 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at October 31, 2016
Investments:				
Fixed-income securities	\$ -	\$ 14,298,664	\$ -	\$ 14,298,664
Fixed-income bond fund	1,731,953	-	-	1,731,953
Money market funds	364,571	-	-	364,571
Equity mutual funds	5,931,437	-	-	5,931,437
Common stocks	10,602,461	-	-	10,602,461
Total investments	18,630,422	14,298,664	-	32,929,086
Other assets - Beneficial interests in trusts	-	-	1,203,253	1,203,253
Total assets	\$ 18,630,422	\$ 14,298,664	\$ 1,203,253	\$ 34,132,339

#### Level 1 Inputs

The fair value of the Society's money market funds, fixed-income bond funds, equity mutual funds, and common stocks was based on quoted market prices.

#### Level 2 Inputs

The fair value of the Society's corporate and foreign bonds, U.S. government agency securities, and U.S. Treasury securities was determined by use of other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Society's policy is to recognize transfers in and out of Level 1, 2, and 3 fair value classifications as of the beginning of the reporting period. There were no transfers between levels during the years ended October 31, 2017 and 2016.

The following table summarizes the valuation methods and inputs used to determine fair value at October 31, 2017 and 2016 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs).

	Fair Value at October 31, 2017	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Beneficial interests in trusts	\$ 1,255,631	Percentage of the trust designated to the Society	Fair value of the underlying assets	N/A

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 2 - Fair Value Measurements (Continued)

	Fair Value at October 31, 2016	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Beneficial interests in trusts	\$ 1,203,253	Percentage of the trust designated to the Society	Fair value of the underlying assets	N/A

The Society has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include obtaining the trusts' monthly statements and analyzing changes in fair value from period to period.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended October 31, 2017 and 2016 are as follows:

	Beneficial Interests in Trusts
Balance at October 31, 2016	\$ 1,203,253
Total unrealized gains	52,378
Balance at October 31, 2017	<u>\$ 1,255,631</u>
	Beneficial Interests in Trusts
Balance at October 31, 2015	\$ 1,162,009
Total unrealized gains	41,244
Balance at October 31, 2016	<u>\$ 1,203,253</u>

Unrealized gains/losses reported above for the years ended October 31, 2017 and 2016 are reported in the change in fair value of beneficial interests in trusts in the statement of activities and changes in net assets.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 3 - Estates and Trust Receivable

As of October 31, 2017 and 2016, estates receivable in the amount of \$964,911 and \$166,506, respectively, are expected to be collected within one year.

### Note 4 - Beneficial Interests in Trusts

Beneficial interests in trusts consist of six perpetual trusts held by third parties and one charitable remainder trust. The charitable remainder trust is adjusted to present value using an interest rate of 2.36 percent for the discount rate. The Society has interests in these trusts ranging from 0.45 percent to 33.33 percent. The Society has no control over any of the assets or investment strategies of the trusts. The trusts primarily consist of cash, fixed income, and equities comprised of U.S. large-cap equity, U.S. mid-cap equity, U.S. small-cap equity, international equity, and other equity holdings (see Note 2).

### Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2017	2016	Depreciable Life - Years
Land and improvements	\$ 965,666	\$ 965,666	10-30
Buildings and improvements	29,358,330	29,230,354	7-30
Furniture and equipment	786,396	731,742	3-10
Vehicles	151,470	151,470	5
Films and media	465,348	465,348	5
Construction in progress	-	23,607	-
Total cost	31,727,210	31,568,187	
Accumulated depreciation	15,239,447	14,166,399	
Net property and equipment	\$ 16,487,763	\$ 17,401,788	

Depreciation expense was \$1,073,045 for 2017 and \$1,034,180 for 2016.

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 6 - Retirement Plan

The Society maintains a Section 403(b) tax sheltered annuity plan for substantially all employees. Under this plan, participants may contribute amounts subject to the limitations contained in the Tax Reform Act of 1986. The Society will match eligible participants' contributions to a maximum of between 3 percent and 10 percent of compensation depending upon years of completed service and the participant's level of contributions. Total contributions by the Society for fiscal years 2017 and 2016 were \$93,208 and \$91,894, respectively.

Effective August 1, 2009, the Society established a deferred compensation plan under Section 457(b) of the Internal Revenue Code for its president. There were no amounts charged to operations for the years ended October 31, 2017 and 2016.

### Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of October 31, 2017 and 2016 are restricted for the following:

	2017	2016
Time	\$ -	\$ 27,473
Purpose	256,523	214,764
Time and purpose	631,976	469,060
Total temporarily restricted net assets	<u>\$ 888,499</u>	<u>\$ 711,297</u>

### Note 8 - Donor-restricted and Board-designated Endowments

The Society's endowment consists of two individual donor-restricted funds with one established to partially support the Society's spay and neuter clinic and the other established for educational purposes. 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. There are no board-designated endowments.

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 8 - Donor-restricted and Board-designated Endowments (Continued)

#### Interpretation of Relevant Law

The board of directors of the Society 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 Society 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 Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Society and the donor-restricted endowment fund
- (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 Society
- (7) The investment policies of the Society

#### Endowment Net Asset Composition by Type of Fund as of October 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 631,976	\$ 1,850,618	\$ 2,482,594

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 8 - Donor-restricted and Board-designated Endowments (Continued)

#### Changes in Endowment Net Assets for the Fiscal Year Ended October 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - Beginning of year	\$ -	\$ 469,060	\$ 1,850,618	\$ 2,319,678
Investment return:				
Interest and dividends	-	48,942	-	48,942
Net appreciation (realized and unrealized)	-	196,378	-	196,378
Total investment return	-	245,320	-	245,320
Appropriation of endowment assets for expenditure	-	(82,404)	-	(82,404)
Endowment net assets - End of year	<u>\$ -</u>	<u>\$ 631,976</u>	<u>\$ 1,850,618</u>	<u>\$ 2,482,594</u>

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 8 - Donor-restricted and Board-designated Endowments (Continued)

#### Endowment Net Asset Composition by Type of Fund as of October 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 469,060	\$ 1,850,618	\$ 2,319,678

#### Changes in Endowment Net Assets for the Fiscal Year Ended October 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ -	\$ 490,453	\$ 1,729,762	\$ 2,220,215
Investment return:				
Interest and dividends	-	45,583	-	45,583
Net appreciation (realized and unrealized)	-	21,992	-	21,992
Total investment return	-	67,575	-	67,575
Appropriation of endowment assets for expenditure	-	(88,968)	-	(88,968)
Contributions	-	-	120,856	120,856
Endowment net assets - End of year	\$ -	\$ 469,060	\$ 1,850,618	\$ 2,319,678

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. There were no such deficiencies as of October 31, 2017 or 2016.

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Society has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's rolling average fair value over the prior 10 years for the years ended October 31, 2017 and 2016. Based on the long-term objectives stated above, the Society will only spend the endowment fund to support the spay and neuter clinic or for educational purposes, while preserving the related principal.

# The Anti-Cruelty Society

## Notes to Financial Statements October 31, 2017 and 2016

### Note 8 - Donor-restricted and Board-designated Endowments (Continued)

#### Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide current annual income to support programs supported by its endowment while achieving a total rate of return in excess of inflation over the preceding five-year period. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity.

#### Strategies Employed for Achieving Objectives

The Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation between equities and fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

### Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets consist of the following for the years ended October 31:

	<u>2017</u>	<u>2016</u>
Donor-restricted endowment funds	\$ 1,850,618	\$ 1,850,618
Beneficial interests in trusts	<u>1,255,631</u>	<u>1,203,253</u>
Total permanently restricted net assets	<u>\$ 3,106,249</u>	<u>\$ 3,053,871</u>

## **Additional Information**

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## Independent Auditor's Report on Additional Information

To the Board of Directors  
The Anti-Cruelty Society

We have audited the financial statements of The Anti-Cruelty Society as of and for the years ended October 31, 2017 and 2016 and have issued our report thereon dated January 16, 2018, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional revenue and expenses is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

January 16, 2018

# The Anti-Cruelty Society

## Schedule of Functional Revenue and Expenses Year Ended October 31, 2017

	Program Services					Support Services			Special Services			Total Shared Costs	Total
	Shelter Services	Clinical and Veterinary Services	Community Programs	Auxiliary Services	Total Program Services	Fundraising	General and Administrative	Total Support Services	Special Fundraising Events	Brokerage Operations	Total Special Services		
<b>Functional Revenue</b>													
Operating revenue and other support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,452,564	\$ -	\$ 3,452,564	\$ -	\$ -	\$ -	\$ -	\$ 3,452,564
Estate income	-	-	-	-	-	2,283,035	-	2,283,035	-	-	-	-	2,283,035
Special event revenue	-	-	-	-	-	-	-	-	254,421	-	254,421	-	254,421
In-kind revenue	-	-	-	-	-	90,888	-	90,888	-	-	-	-	90,888
Shelter, clinical, and other service income	587,622	426,417	4,805	-	1,018,844	-	-	-	-	-	-	-	1,018,844
Investment and annuity income	-	-	-	-	-	-	-	-	-	855,671	855,671	-	855,671
Retail sales and other revenue	755	1,839	139	69,305	72,038	-	-	-	-	-	-	120	72,158
Restrictions released between functions	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total functional revenue</b>	<b>588,377</b>	<b>428,256</b>	<b>4,944</b>	<b>69,305</b>	<b>1,090,882</b>	<b>5,826,487</b>	<b>-</b>	<b>5,826,487</b>	<b>254,421</b>	<b>855,671</b>	<b>1,110,092</b>	<b>120</b>	<b>8,027,581</b>
<b>Direct Functional Expenses</b>													
Staff compensation and benefits	2,025,971	849,239	303,807	4,015	3,183,032	264,895	517,601	782,496	46,583	-	46,583	1,165,012	5,177,123
External services and payments to others	34,044	18,407	1,373	-	53,824	570,127	67,236	637,363	-	3,408	3,408	76,590	771,185
Veterinary costs	-	-	-	-	-	-	-	-	-	-	-	-	13,171
Consumables	99,677	460,298	33,859	(14,409)	579,425	199,930	3,641	203,571	-	-	-	30,042	813,038
In-kind expenses	-	-	-	88,428	88,428	-	-	-	187	-	187	1,757	90,372
Travel and staff development	1,085	-	6,120	-	7,205	2,648	10,735	13,383	-	-	-	12,276	32,864
Printing and duplication	235	-	38,829	-	39,064	23,483	838	24,321	-	-	-	39,010	102,395
Fundraising event costs	-	-	-	-	-	-	-	-	74,517	-	74,517	-	74,517
Auto, occupancy, and risk	764	4,252	782	60,070	65,868	7	-	7	4,687	-	4,687	497,142	567,704
Bank fees and processing charges	-	-	-	-	-	-	-	-	-	-	-	100,782	100,782
Capitalizable expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost reimbursements	-	-	-	-	-	-	(512)	(512)	-	(503)	(503)	(1,572)	(2,587)
<b>Total direct functional expenses</b>	<b>2,161,776</b>	<b>1,332,196</b>	<b>384,770</b>	<b>138,104</b>	<b>4,016,846</b>	<b>1,061,090</b>	<b>599,539</b>	<b>1,660,629</b>	<b>125,974</b>	<b>2,905</b>	<b>128,879</b>	<b>1,934,210</b>	<b>7,740,564</b>
<b>Direct Shared Costs</b>													
Operations and veterinary costs	311,600	440,476	18,746	-	770,822	-	-	-	-	-	-	(770,822)	-
Volunteer and staff training costs	26,770	12,103	3,840	110	42,823	2,033	2,785	4,818	436	-	436	(48,077)	-
Public relations and advertising	75,470	42,407	12,488	1,921	132,286	38,224	-	38,224	5,033	-	5,033	(175,543)	-
Physical plant costs	431,764	200,302	132,235	10,907	775,208	9,694	20,647	30,341	33	-	33	(805,582)	-
Data and IT services	47,210	23,028	5,280	1,455	76,973	62,137	3,792	65,929	5,104	-	5,104	(148,006)	-
Office services expenses	20,413	8,894	3,454	81	32,842	3,188	2,810	5,998	461	-	461	(39,301)	-
<b>Total direct shared costs</b>	<b>913,227</b>	<b>727,210</b>	<b>176,043</b>	<b>14,474</b>	<b>1,830,954</b>	<b>115,276</b>	<b>30,034</b>	<b>145,310</b>	<b>11,067</b>	<b>-</b>	<b>11,067</b>	<b>(1,987,331)</b>	<b>-</b>
<b>Direct Functional (Loss) Income</b>	<b>(2,486,626)</b>	<b>(1,631,150)</b>	<b>(555,869)</b>	<b>(83,273)</b>	<b>(4,756,918)</b>	<b>4,650,121</b>	<b>(629,573)</b>	<b>4,020,548</b>	<b>117,380</b>	<b>852,766</b>	<b>970,146</b>	<b>53,241</b>	<b>287,017</b>
<b>Indirect and Noncash Costs -</b>													
Depreciation and amortization	533,625	263,218	167,502	14,379	978,724	12,984	28,216	41,200	-	-	-	53,121	1,073,045
<b>Nonoperating Revenue, Gains, and Losses</b>													
Brokerage fees	-	-	-	-	-	-	-	-	-	(139,817)	(139,817)	-	(139,817)
Annuity valuation changes	-	-	-	-	-	-	-	-	-	65,388	65,388	-	65,388
Portfolio transactions	-	-	-	-	-	-	-	-	-	3,377,222	3,377,222	-	3,377,222
<b>Total nonoperating revenue, gains, and losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,302,793</b>	<b>3,302,793</b>	<b>-</b>	<b>3,302,793</b>
<b>Total functional (loss) income</b>	<b>\$ (3,020,251)</b>	<b>\$ (1,894,368)</b>	<b>\$ (723,371)</b>	<b>\$ (97,652)</b>	<b>\$ (5,735,642)</b>	<b>\$ 4,637,137</b>	<b>\$ (657,789)</b>	<b>\$ 3,979,348</b>	<b>\$ 117,380</b>	<b>\$ 4,155,559</b>	<b>\$ 4,272,939</b>	<b>\$ 120</b>	<b>\$ 2,516,765</b>