

The Anti-Cruelty Society

Financial Report
October 31, 2023

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RSM US LLP

Independent Auditor's Report

Board of Directors
The Anti-Cruelty Society

Opinion

We have audited the financial statements of The Anti-Cruelty Society (the Society), which comprise the statements of financial position as of October 31, 2023 and 2022, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as of October 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Chicago, Illinois
March 1, 2024

The Anti-Cruelty Society

Statements of Financial Position
October 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 4,074,997	\$ 2,254,962
Accrued interest and dividends	141,550	109,652
Bequests and other receivables	781,280	930,530
Pledges receivable, net	806,635	-
Prepaid expense and other current assets	372,359	191,849
Property and equipment, net	6,671,918	7,988,965
Right-of-use-asset—finance lease	50,082	-
Investments	39,045,668	42,496,400
Investments—endowments	1,773,510	1,685,975
Beneficial interest in perpetual trusts	1,186,948	1,155,965
	<u>54,904,947</u>	<u>56,814,298</u>
Total assets	\$ 54,904,947	\$ 56,814,298
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 388,001	\$ 462,429
Accrued payroll and related	281,728	224,271
Accrued vacation	259,947	259,739
Lease liabilities—finance lease	47,176	-
Deferred revenue	205,179	463,533
Accrued expenses	209,754	121,671
Other liabilities	69,573	73,123
	<u>1,461,358</u>	<u>1,604,766</u>
Total liabilities	1,461,358	1,604,766
Net assets:		
Without donor restrictions		
Undesignated	19,694,911	22,379,516
Board-designated:		
Capital reserve	5,000,000	5,000,000
Business continuity	25,000,000	25,000,000
	<u>49,694,911</u>	<u>52,379,516</u>
With donor restrictions	3,748,678	2,830,016
	<u>53,443,589</u>	<u>55,209,532</u>
Total net assets	53,443,589	55,209,532
	<u>54,904,947</u>	<u>56,814,298</u>
Total liabilities and net assets	\$ 54,904,947	\$ 56,814,298

See notes to financial statements.

The Anti-Cruelty Society

**Statement of Activities
Year Ended October 31, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Bequests, contributions, donations and gifts	\$ 8,515,828	\$ 806,635	\$ 9,322,463
Direct mail contributions, donations and gifts	1,341,190	-	1,341,190
Contributions of nonfinancial assets	32,464	-	32,464
Animal care shelter income and grants	36,251	-	36,251
Clinic income and grants	792,880	-	792,880
Adoption fees and grants	469,648	-	469,648
Community program fees and grants	199,370	-	199,370
Special events income, net	259,044	-	259,044
Retail sales, net of discounts	41,883	-	41,883
Investment return designated for operations	2,100,000	-	2,100,000
Total revenue and other support	13,788,558	806,635	14,595,193
Expenses:			
Salaries, benefits, recruitment and training	10,187,224	-	10,187,224
Animal expenses:			
Animal handling and cleaning	91,577	-	91,577
Animal food costs	237,281	-	237,281
Animal microchip and tags	73,938	-	73,938
Animal supplies and transportation	127,947	-	127,947
Clinic expenses and supplies	221,754	-	221,754
Pharmacy expenses	183,611	-	183,611
Program equipment and supplies	329,688	-	329,688
Animal disposition services	24,272	-	24,272
	1,290,068	-	1,290,068
Occupancy expenses:			
Supplies and repairs	231,583	-	231,583
Property insurance and permits	105,805	-	105,805
Utilities	276,886	-	276,886
	614,274	-	614,274

(Continued)

The Anti-Cruelty Society

Statements of Activities (Continued)
Year Ended October 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued):			
Branding and development expenses	\$ 87,505	\$ -	\$ 87,505
Corporate fees and expenses:			
Audit fees	88,137	-	88,137
Bank and service fees	89,013	-	89,013
Direct mail expenses	933,971	-	933,971
Leases	36,674	-	36,674
Legal fees	308,483	-	308,483
Liability insurance and permits	29,011	-	29,011
Fees and corporate expenses	506,155	-	506,155
	<u>1,991,444</u>	<u>-</u>	<u>1,991,444</u>
Other miscellaneous expenses	670,869	-	670,869
Depreciation and amortization	1,820,293	-	1,820,293
	<u>16,661,677</u>	<u>-</u>	<u>16,661,677</u>
Total expenses	16,661,677	-	16,661,677
(Decrease) increase in net assets before other income	(2,873,119)	806,635	(2,066,484)
Other income:			
Investment income less amount designated for operations	184,966	81,044	266,010
Increase in fair value of beneficial interest in perpetual trusts	-	30,983	30,983
Miscellaneous	3,548	-	3,548
Total other income	188,514	112,027	300,541
(Decrease) increase in net assets	(2,684,605)	918,662	(1,765,943)
Net assets:			
Beginning of year	52,379,516	2,830,016	55,209,532
End of year	<u>\$ 49,694,911</u>	<u>\$ 3,748,678</u>	<u>\$ 53,443,589</u>

See notes to financial statements.

The Anti-Cruelty Society

**Statement of Activities
Year Ended October 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Bequests, contributions, donations and gifts	\$ 8,743,047	\$ -	\$ 8,743,047
Direct mail contributions, donations and gifts	1,574,980	-	1,574,980
Contributions of nonfinancial assets	5,000	-	5,000
Animal care shelter income and grants	83,244	-	83,244
Clinic income and grants	594,906	-	594,906
Adoption fees and grants	533,352	-	533,352
Community program fees and grants	357,149	-	357,149
Special events income, net	224,478	-	224,478
Retail sales, net of discounts	33,584	-	33,584
Investment return designated for operations	3,271,692	-	3,271,692
Total revenue and other support	15,421,432	-	15,421,432
Expenses:			
Salaries, benefits, recruitment and training	8,863,339	-	8,863,339
Animal expenses:			
Animal handling and cleaning	57,159	-	57,159
Animal food costs	201,368	-	201,368
Animal microchip and tags	74,524	-	74,524
Animal supplies and transportation	200,260	-	200,260
Clinic expenses and supplies	191,349	-	191,349
Pharmacy expenses	142,833	-	142,833
Program equipment and supplies	345,981	-	345,981
Animal disposition services	23,853	-	23,853
	1,237,327	-	1,237,327
Occupancy expenses:			
Supplies and repairs	224,505	-	224,505
Property insurance and permits	92,818	-	92,818
Utilities	189,254	-	189,254
	506,577	-	506,577

(Continued)

The Anti-Cruelty Society

**Statement of Activities (Continued)
Year Ended October 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued):			
Branding and development expenses	\$ 82,725	\$ -	\$ 82,725
Corporate fees and expenses:			
Audit fees	67,690	-	67,690
Bank and service fees	77,531	-	77,531
Direct mail expenses	1,130,432	-	1,130,432
Leases	19,955	-	19,955
Legal fees	38,714	-	38,714
Liability insurance and permits	33,152	-	33,152
Fees and corporate expenses	324,694	-	324,694
	<u>1,692,168</u>	<u>-</u>	<u>1,692,168</u>
Other miscellaneous expenses	613,459	-	613,459
Depreciation and amortization	1,999,842	-	1,999,842
	<u>14,995,437</u>	<u>-</u>	<u>14,995,437</u>
Total expenses	14,995,437	-	14,995,437
Increase in net assets before other income	425,995	-	425,995
Other income (loss):			
Investment loss less amount designated for operations	(10,080,854)	(332,935)	(10,413,789)
Decrease in fair value of beneficial interest in perpetual trusts	-	(348,356)	(348,356)
Miscellaneous	3,648	-	3,648
Total other loss	(10,077,206)	(681,291)	(10,758,497)
Decrease in net assets	(9,651,211)	(681,291)	(10,332,502)
Net assets:			
Beginning of year	62,030,727	3,511,307	65,542,034
End of year	<u>\$ 52,379,516</u>	<u>\$ 2,830,016</u>	<u>\$ 55,209,532</u>

See notes to financial statements.

The Anti-Cruelty Society

Statement of Functional Expenses Year Ended October 31, 2023

	Program Services			Total Program Services	Supporting Services		Total Support Services	Total
	Animal Care and Shelter	Clinical and Veterinary Services	Mission Impact		Development	General and Administrative		
Salaries, benefits, recruitment and training	\$ 3,102,046	\$ 3,369,271	\$ 2,607,194	\$ 9,078,511	\$ 573,777	\$ 534,936	\$ 1,108,713	\$ 10,187,224
Animal handling and cleaning	91,577	-	-	91,577	-	-	-	91,577
Animal food costs	197,150	-	40,131	237,281	-	-	-	237,281
Animal microchip and tags	-	73,938	-	73,938	-	-	-	73,938
Animal supplies and transportation	122,753	-	5,194	127,947	-	-	-	127,947
Clinic expenses and supplies	545	213,232	7,977	221,754	-	-	-	221,754
Pharmacy expenses	-	183,611	-	183,611	-	-	-	183,611
Program equipment and supplies	63,448	17,798	248,442	329,688	-	-	-	329,688
Animal disposition services	24,272	-	-	24,272	-	-	-	24,272
Supplies and repairs	78,937	64,437	77,489	220,863	3,828	6,892	10,720	231,583
Property insurance and permits	36,064	29,439	35,403	100,906	1,749	3,150	4,899	105,805
Utilities	94,379	77,043	92,647	264,069	4,576	8,241	12,817	276,886
Branding and development expenses	28,538	27,304	19,761	75,603	11,902	-	11,902	87,505
Audit fees	-	-	-	-	-	88,137	88,137	88,137
Bank and service fees	-	-	-	-	45,923	43,090	89,013	89,013
Direct mail expenses	-	-	-	-	933,971	-	933,971	933,971
Leases	22,500	-	-	22,500	-	14,174	14,174	36,674
Legal fees	-	-	-	-	-	308,483	308,483	308,483
Liability insurance and permits	202	-	-	202	-	28,809	28,809	29,011
Fees and corporate expenses	62,960	60,872	69,431	193,263	280,801	32,091	312,892	506,155
Other miscellaneous expenses	200,409	138,582	152,065	491,056	132,701	47,112	179,813	670,869
Depreciation and amortization	660,558	499,163	607,890	1,767,611	12,953	39,729	52,682	1,820,293
	\$ 4,786,338	\$ 4,754,690	\$ 3,963,624	\$ 13,504,652	\$ 2,002,181	\$ 1,154,844	\$ 3,157,025	\$ 16,661,677

See notes to financial statements.

The Anti-Cruelty Society

Statement of Functional Expenses Year Ended October 31, 2022

	Program Services				Supporting Services				Total
	Animal Care and Shelter	Clinical and Veterinary Services	Mission Impact	Retail Services	Total Program Services	Development	General and Administrative	Total Support Services	
Salaries, benefits, recruitment and training	\$ 2,679,788	\$ 2,814,280	\$ 2,253,827	\$ 31,845	\$ 7,779,740	\$ 568,944	\$ 514,655	\$ 1,083,599	\$ 8,863,339
Animal handling and cleaning	57,159	-	-	-	57,159	-	-	-	57,159
Animal food costs	201,333	-	35	-	201,368	-	-	-	201,368
Animal microchip and tags	500	71,075	2,949	-	74,524	-	-	-	74,524
Animal supplies and transportation	198,920	-	1,340	-	200,260	-	-	-	200,260
Clinic expenses and supplies	10,763	180,586	-	-	191,349	-	-	-	191,349
Pharmacy expenses	-	142,833	-	-	142,833	-	-	-	142,833
Program equipment and supplies	79,846	14,936	251,199	-	345,981	-	-	-	345,981
Animal disposition services	23,853	-	-	-	23,853	-	-	-	23,853
Supplies and repairs	73,640	61,092	75,759	235	210,726	3,506	10,273	13,779	224,505
Property insurance and permits	25,269	20,964	25,884	81	72,198	1,203	19,417	20,620	92,818
Utilities	61,790	51,117	63,317	65	176,289	2,983	9,982	12,965	189,254
Branding and development expenses	22,380	26,700	20,468	1,275	70,823	11,902	-	11,902	82,725
Audit fees	-	-	-	-	-	-	67,690	67,690	67,690
Bank and service fees	-	-	-	-	-	40,351	37,180	77,531	77,531
Direct mail expenses	-	-	-	-	-	1,130,432	-	1,130,432	1,130,432
Leases	6,273	5,181	6,003	78	17,535	1,171	1,249	2,420	19,955
Legal fees	-	-	-	-	-	-	38,714	38,714	38,714
Liability insurance and permits	5,296	4,291	4,971	64	14,622	970	17,560	18,530	33,152
Fees and corporate expenses	11,227	6,716	22,093	221	40,257	125,690	158,747	284,437	324,694
Other miscellaneous expenses	134,682	88,213	153,770	3,725	380,390	97,744	135,325	233,069	613,459
Depreciation and amortization	709,397	568,229	691,188	233	1,969,047	30,795	-	30,795	1,999,842
	<u>\$ 4,302,116</u>	<u>\$ 4,056,213</u>	<u>\$ 3,572,803</u>	<u>\$ 37,822</u>	<u>\$ 11,968,954</u>	<u>\$ 2,015,691</u>	<u>\$ 1,010,792</u>	<u>\$ 3,026,483</u>	<u>\$ 14,995,437</u>

See notes to financial statements.

The Anti-Cruelty Society

**Statements of Cash Flows
Years Ended October 31, 2023 and 2022**

	2023	2022
Cash flows from operating activities:		
Decrease in net assets	\$ (1,765,943)	\$ (10,332,502)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,820,293	1,999,842
Realized and unrealized (gain) loss on investments	(1,481,728)	7,923,870
Noncash donations of investments	(279,073)	(282,531)
(Increase) decrease in fair value of beneficial interest in trust	(30,983)	348,356
Reduction in carrying amount of finance lease right-of-use assets	13,853	-
Interest on lease liability	2,411	-
Changes in operating assets and liabilities:		
Accrued interest and dividends	(31,898)	(16,503)
Bequests and other receivables	149,250	1,482,905
Pledge receivable	(806,635)	-
Prepaid expenses and other current assets	(180,510)	54,083
Accounts payable	(74,428)	290,810
Accrued payroll and related	57,457	104,496
Accrued vacation	208	76,815
Deferred revenue	(258,354)	106,086
Accrued expenses	88,083	(24,202)
Other liabilities	(3,550)	(3,646)
Net cash (used in) provided by operating activities	(2,781,547)	1,727,879
Cash flows from investing activities:		
Purchases of property and equipment	(503,246)	(298,468)
Proceeds from the sales of investments	43,539,497	43,387,272
Purchases of investments	(38,420,495)	(44,847,779)
Net cash provided by (used in) investing activities	4,615,756	(1,758,975)
Net cash from financing activities		
Cash paid for finance leases	(14,174)	-
Net cash used in financing activities	(14,174)	-
Net increase (decrease) in cash and cash equivalents	1,820,035	(31,096)
Cash and cash equivalents:		
Beginning of year	2,254,962	2,286,058
End of year	\$ 4,074,997	\$ 2,254,962

See notes to financial statements.

The Anti-Cruelty Society

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Founded in 1899, The Anti-Cruelty Society (the Society) is Chicago's oldest and largest, private, nonprofit, open-admission, humane society, chartered in Illinois. With a mission of building a healthy and happy community where pets and people thrive together, its comprehensive programs and services help over 20,000 animals and humans every year and include adoption, charity veterinary clinic, low- or no-cost spay/neuter clinic, cruelty investigations and rescue, humane education and community outreach, free behavior helpline, the Bruckner Rehabilitation & Treatment Center, the Virginia Butts Berger Cat Clinic and the Dog Rehabilitation Center. The Society provides community support to keep people and their pets together through safety net services such as the pop-up pet food pantry program, wellness fairs, emergency pet boarding, senior citizen pet owner support and community education programs. The vision is to build a more humane Chicago for pets and people. The Society is located in Chicago and its services and programs include the following:

Shelter and adoption services: As an open-door shelter that cares for any animal in need, regardless of breed, age or health, the Society works to provide best care for animals in its care and to find placements in a forever home. Staff are trained to care for animals and provide behavioral and enrichment support while maintaining the best care possible for each animal. The Society has placed 4,133 animals in homes in 2023.

Veterinary and clinical services: In addition to caring for more than 6,000 shelter animals annually to help prepare them for adoption, the Society maintains a veterinary staff to support both internal needs as well as provide a community low-cost spay/neuter program for owned pets. The Society also operates a community care clinic providing services to clients who cannot afford these vital services for their companion animals, while supporting community outreach efforts such as Wellness Fairs across the city of Chicago.

Community outreach: The Society's commitment to animal welfare extends beyond the shelter to provide education and access to care in Chicago's most under resourced communities. The Society's field services team 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. A number of safety net services are offered to keep pets and people together, including monthly pop-up pet food pantries, emergency sheltering, wellness fairs and vaccination clinics to bring access to vet care into under resourced communities. Community outreach also includes educational programs for all ages to help people become animal advocates. A strong volunteer program supports the work and activities of the shelter, including 1,719 and 944 approved foster homes who cared for 1,628 and 1,310 foster animals in 2023 and 2022, respectively. This program expands the care for animals by providing a respite from a shelter environment.

In preparation for the Society's 125th anniversary in 2024, its board of directors has approved the 500 Day Journey Plan to enhance Open Door and BEST Care for Animals operations through a major gift initiative. The initiative is a continuation of the Community Immersion Pilot project approved in 2021. Priorities are animals, pet owners, and communities with initiatives to provide better shelter and care for animals at its River North location; connect directly with pet owners in under resourced areas of Chicago's south side to mitigate pet food and health challenges; partner with human services organizations to help connect people to pet health care and other resources; and expand adoption outreach to connect more animals with families.

The Anti-Cruelty Society

Notes to Financial Statements

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

The Society follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial position, results of activities and cash flows. References to accounting principles generally accepted in the United States of America (U.S. GAAP) in these footnotes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC.

Cash and cash equivalents: The Society maintains its cash, including money market accounts, 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.

Bequests and other receivables: The Society is the beneficiary of various wills and trusts. Such amounts are recorded when a clear title is established (when will is declared valid) and the proceeds are clearly measurable. The Society records bequests receivable as unconditional promises to give at net realizable value and are generally expected to be collected within one year.

Pledge Receivables: Pledges receivable consist of unconditional promises to give and are recorded at the present value of estimated future cash flows. Pledges have been discounted using rates that approximate the risk associated with the ultimate collection of the receivable. The discount is amortized using an effective yield over the expected collection period of the receivable. Management considers pledges receivable to be fully collectible at October 31, 2023 and 2022. Accordingly, no allowance for uncollectible accounts is required.

Investments: Investments are carried at fair value. Investment gains and losses and investment income are reported in the statement of activities as increases or decreases in net assets. Realized gains and losses resulting from the sale of investments are reported in the statement of activities 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.

Beneficial interests in perpetual trust: The Society has been named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Society. At the date the Society receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the statement of activities, and a beneficial interest in perpetual trust is recorded in the statement of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trust are reported at the fair value of the trusts' assets in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

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

The Anti-Cruelty Society

Notes to Financial Statements

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

Leases: Prior to November 1, 2022, the Society followed the lease accounting guidance in FASB ASC Topic 840. Effective November 1, 2022, the Society follows the lease accounting guidance in FASB ASC Topic 842. The Society determines if an arrangement is a lease at inception of the contract. Under Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Society's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Society has the right to obtain substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term.

Leases are classified as either operating or finance. For both operating and finance leases, the Society recognizes a lease liability equal to the present value of the remaining lease payments, and a right-of-use asset equal to the lease liability, subject to certain adjustments, such as for prepaid rents. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Society will exercise such option. When the rate implicit in the lease is not readily determinable, the Society has made a policy election to use a risk-free rate, based on the United States Treasury rates, to determine the present value of the lease payments for all classes of assets.

The Society defines a short-term lease as any lease arrangement with a lease term of 12 months or less that does not include an option to purchase the underlying asset. The Society has made a policy election to not recognize right-of-use assets and lease liabilities for short-term leases.

Operating leases result in a straight-line lease expenses, while finance leases result in front-loaded expense patterns. The Society's lease agreements do not contain residual value guarantees or restrictive covenants.

Net assets: The Society classifies its net assets, revenue, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society are reported as follows:

Without donor restrictions: Net assets are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for the general purpose of the Society.

Net assets without donor restrictions include board-designated funds intended for business continuity and capital assets. The business continuity reserve is maintained at a minimum level of \$25,000,000 in investments and is intended to support current operations during catastrophic times.

The capital asset reserve is maintained at a level of \$5,000,000 and is intended to provide funding for the annual capital budget at a rate of 5.25%. This reserve can be used to repair or acquire buildings and address system failures, leaseholds, furniture fixtures and equipment necessary for effective operation of the organization and programs. The opportunity reserve was intended to fund large opportunities and enable the organization to pursue opportunities of strategic importance, consists of any funds in excess of \$30,000,000. The opportunity reserve and the other reserve are considered to be and are classified as part of undesignated net assets for financial reporting purposes.

With donor restrictions: Net assets are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Society or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains and losses on donor restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

The Anti-Cruelty Society

Notes to Financial Statements

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

Contributions: Contributions of cash, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Conditional contributions are not recognized until the conditions on which they depend have been substantially met.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the period in which the gift is received are both reported as without donor restrictions. Other restricted gifts are reported as with donor restrictions.

During the years ended October 31, 2023 and 2022, the Society received approximately \$1,009,000 and \$77,000, respectively, in multi-year pledge contributions from board members.

Contributions of nonfinancial assets: Certain donated services and materials are recognized as support in the statement of activities at fair value. Contributed legal and professional services are determined based on hours of service provided at estimated market rates. Contributed animal food is estimated based on the wholesale value of items donated. For the year ended October 31, 2023, the Society recorded donated animal food totaling \$32,464. For the year ended October 31, 2022, the Society recorded in-kind legal services totaling \$5,000.

A number of individual volunteers have donated time to the Society 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 do not meet the criteria for recognition under U.S. GAAP.

Functional allocation of expenses: Costs of providing the program and support services have been reported on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied.

Employee fringe benefits, staff training, office services, IT services, executive office, business administration and operations office expenses are allocated based on full time equivalent employees. Depreciation, utilities and maintenance are allocated based on square footage.

Costs have been allocated between the various programs and support services based on estimates, as determined by management.

Income taxes: The Society is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Society may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Society and various positions related to the potential sources of unrelated business taxable income (UBIT). There were no unrecognized tax benefits identified or recorded as liabilities for the reporting period presented in these financial statements.

The Society files Form 990 in the U.S. federal jurisdiction and a related return in the State of Illinois and various other states.

The Anti-Cruelty Society

Notes to Financial Statements

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

Accounting pronouncement adopted: The FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in FASB ASC Topic 840, *Leases*, which is intended to increase transparency and comparability among organizations related to their leasing arrangements. The new lease standard, including all the related amendments subsequent to its issuance, supersedes the current guidance for lease accounting and requires lessees to recognize a right-of-use asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term for substantially all leases, as well as disclose key quantitative and qualitative information about lease arrangements.

The Society adopted ASU 2016-02 on November 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Society has applied ASU 2016-02 to reporting periods beginning on November 1, 2022, while prior periods continue to be reported and disclosed in accordance with the legacy guidance under ASC Topic 840, *Leases*. The adoption did not result in a cumulative-effect adjustment to the opening balance of net assets.

In addition to the policy election choices, FASB ASC Topic 842 includes practical expedient choices. The Society elected the package of practical expedients available in the standard and, as a result, did not reassess the lease classification of existing leases, whether a pre-existing contract is deemed to be or to include a lease or the initial direct costs associated with existing leases. The Society did not elect the hindsight practical expedient, and so did not re-evaluate lease terms for existing leases and has measured the right-of-use asset and lease liability using the remaining portion of the lease term at adoption on November 1, 2022.

The adoption resulted in the recording of finance right-of-use assets totaling \$63,935 and finance lease liabilities of \$62,974 at November 1, 2022.

Contingencies: From time to time, the Society may be named in various lawsuits arising in the ordinary course of business. Despite the inherent uncertainties around litigation, the Society is not aware of any litigatory matters that may have a material adverse impact on the financial condition of the Society.

Subsequent events: The Society has evaluated subsequent events for potential recognition and/or disclosure through March 1, 2024, the date the financial statements were available to be issued.

The Anti-Cruelty Society

Notes to Financial Statements

Note 2. Liquidity and Availability of Resources

The following reflects the Society's financial assets as of October 31, 2023 and 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

	2023	2022
Cash and cash equivalents	\$ 4,074,997	\$ 2,254,962
Accrued interest and dividends receivable	141,550	109,652
Bequests and other receivables	781,280	930,530
Pledges receivable, net	806,635	-
Investments	39,045,668	42,496,400
Investments—endowments	1,773,510	1,685,975
Beneficial interest in perpetual trusts	1,186,948	1,155,965
Financial assets at year-end	<u>47,810,588</u>	<u>48,633,484</u>
Less those unavailable for general expenditures within one year:		
Board-designated net assets, capital reserve	5,000,000	5,000,000
Board-designated net assets, business continuity	25,000,000	25,000,000
Investments—endowments	1,773,510	1,685,975
Pledges receivable not due within one year	532,337	-
Beneficial interest in perpetual trusts	1,186,948	1,155,965
	<u>33,492,795</u>	<u>32,841,940</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,317,793</u>	<u>\$ 15,791,544</u>

The Society has a goal to maintain financial assets, consisting of cash and short-term investments, on hand to meet 45 days of normal operating expenses, which are, on average, approximately \$1,851,000 and \$1,800,000 at October 31, 2023 and 2022, respectively. The Society has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, as part of its liquidity management, the Society invests cash in excess of 45 day requirements in its portfolio until needed. Currently, the Society has a spending policy from the portfolio of 6.25% of \$40,000,000 of the market value on an annual basis. Monthly withdrawals from the portfolio are added to cash for operations and capital purchases. The Society has no lines of credit.

Note 3. Investments and Fair Value Measurements

The Fair Value Measurements and Disclosures topic of the Codification 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 sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Fair Value Measurements and Disclosures topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the Fair Value Measurements and Disclosures topic are described below:

The Anti-Cruelty Society

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

Level 1: Quoted market prices in active markets, such as the New York Stock Exchange, for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

For the years ended October 31, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent with the previous year. The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis:

Investment securities: The fair value of publicly traded fixed-income securities, equity mutual funds, and common stocks are based upon market quotations of national security exchanges.

Beneficial interest in perpetual trusts: Perpetual trusts are recorded at fair value based on the Society's interest in the fair value of the underlying trust assets.

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.

The following tables present information about the Society's assets measured at fair value on a recurring basis at October 31, 2023 and 2022, and the valuation techniques used by the Society to determine those fair values.

	2023			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Operating investments at fair value:				
Fixed-income securities	\$ 9,861,333	\$ 6,587,039	\$ -	\$ 16,448,372
Equity mutual funds	7,530,588	-	-	7,530,588
Common stocks	15,066,708	-	-	15,066,708
	<u>32,458,629</u>	<u>6,587,039</u>	<u>-</u>	<u>39,045,668</u>
Endowment investments at fair value:				
Equity mutual funds	1,773,510	-	-	1,773,510
Other assets at fair value:				
Beneficial interest in trusts	-	-	1,186,948	1,186,948
Total assets	<u>\$ 34,232,139</u>	<u>\$ 6,587,039</u>	<u>\$ 1,186,948</u>	<u>\$ 42,006,126</u>

The Anti-Cruelty Society

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

	2022			
	Quoted Prices in Active Markets for Identical Assets Level 1			
	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total	
Operating investments at fair value:				
Fixed-income securities	\$ 10,196,659	\$ 4,634,444	\$ -	\$ 14,831,103
Equity mutual funds	9,966,617	-	-	9,966,617
Common stocks	17,698,680	-	-	17,698,680
	<u>37,861,956</u>	<u>4,634,444</u>	<u>-</u>	<u>42,496,400</u>
Endowment investments at fair value:				
Fixed-income securities	-	1,685,975	-	1,685,975
Other assets at fair value:				
Beneficial interest in trusts	-	-	1,155,965	1,155,965
Total assets	<u>\$ 37,861,956</u>	<u>\$ 6,320,419</u>	<u>\$ 1,155,965</u>	<u>\$ 45,338,340</u>

For the years ended October 31, 2023 and 2022, investment return (loss) was comprised as follows:

	2023	2022
Interest and dividend income, net of investment fees	\$ 884,282	\$ 781,773
Realized and changed in unrealized gain (loss) on investments	1,481,728	(7,923,870)
	<u>\$ 2,366,010</u>	<u>\$ (7,142,097)</u>

Investment return (loss) as presented in the statement of activities is as follows:

	2023	2022
Investment return designated for operations	\$ 2,100,000	\$ 3,271,692
Investment return (loss) less amount designated for operations	266,010	(10,413,789)
	<u>\$ 2,366,010</u>	<u>\$ (7,142,097)</u>

The Anti-Cruelty Society

Notes to Financial Statements

Note 4. Beneficial Interest in Perpetual Trusts

The Society has interests in beneficial interest in perpetual trusts in various percentages ranging from 0.045% to 33.30%.

For the years ended October 31, 2023 and 2022, beneficial interest in perpetual trusts is as follows:

	2023	2022
Beneficial interest in perpetual trusts, beginning of year	\$ 1,155,965	\$ 1,504,321
Change in fair value of perpetual trusts	30,983	(348,356)
Beneficial interest in perpetual trusts, end of year	<u>\$ 1,186,948</u>	<u>\$ 1,155,965</u>

Net increase in fair value of perpetual trusts of \$30,983 and net decrease in fair value of perpetual trusts of \$348,356 for years ended October 31, 2023 and 2022, respectively, are reported in the statement of activities.

Note 5. Property and Equipment

Property and equipment is summarized by major classification, net of accumulated depreciation as follows:

	Depreciable Life—Years	2023 Amount	2022 Amount
Land and improvements	15	\$ 215,648	\$ 215,648
Buildings and improvements	15-50	30,370,852	30,465,408
Furniture and equipment	3-7	1,202,430	1,153,638
Vehicles	5	348,000	329,678
Films and media	5	530,092	530,092
Construction in progress		318,883	29,697
Total cost		<u>32,985,905</u>	<u>32,724,161</u>
Accumulated depreciation		<u>(26,313,987)</u>	<u>(24,735,196)</u>
Net property and equipment		<u>\$ 6,671,918</u>	<u>\$ 7,988,965</u>

Depreciation expense for the years ended October 31, 2023 and 2022, was \$1,820,293 and \$1,999,842, respectively. The Society estimates an additional \$840,000 in costs to complete construction in progress for building renovations at October 31, 2023.

Note 6. Leases

The Society entered into a contract to lease office equipment on October 10, 2022. The term of the lease payments is five years. This lease includes renewal, termination or purchase options. Under FASB ASC Topic 842, the lease term at the lease commencement date is determined based on the non-cancellable period for which the Society has the right to use the underlying assets, together with any periods covered by an option to extend the lease if the Society is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Society is reasonably certain to not exercise that option, and periods covered by an option to extend (or to terminate) the lease in which the exercise of the option is controlled by the lessor.

The Anti-Cruelty Society

Notes to Financial Statements

Note 6. Leases (Continued)

The Society reviewed the reassessment and re-measurement requirements and did not identify any events or conditions during the fiscal year ended October 31, 2023, that required a reassessment or re-measurement. In addition, there were no impairment indicators identified during fiscal year 2023 that required an impairment test for the Society's right-of-use assets in accordance with ASC 360-10.

The components of lease expense related to the lease for the fiscal year ended October 31, 2023, is as follows:

Finance lease cost	\$ 14,174
Short term lease cost	22,500

The remaining lease term as of October 31, 2023, was four years with a discount rate of 4.27%.

As of October 31, 2023, maturities of the Society's lease liability is as follows:

Years ending October 31:	
2024	\$ 14,174
2025	14,174
2026	14,174
2027	14,174
Total lease payments	<u>56,696</u>
Less imputed interest	<u>(9,520)</u>
Total lease obligation	<u><u>\$ 47,176</u></u>

Note 7. Retirement Plans

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 up to a maximum of between 3% and 10% of compensation depending upon years of completed service and the participant's level of contributions. Total contributions by the Society are \$260,726 and \$197,627 for the years ended October 31, 2023 and 2022, respectively.

The Society maintains a Section 457(f) non-qualified deferred compensation plan for certain employees. The plan assets are held in the Society's name and are invested in a portfolio of investments. The Society began making contributions to the plan in fiscal year 2023. The contributions to this plan were \$69,235 the year ended October 31, 2023. At June 30, 2023, \$58,890 was accrued as a separate liability included in accrued expense on the statement of financial position and set aside in a separate account for this benefit. The assets held in this account are the property of the Society and are subject to the claims of the general creditors. The assets are included in other assets on the statement of financial position and are invested in mutual funds which are measured at fair value and are classified as level 1 investments.

The Anti-Cruelty Society

Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions were as follows for the years ended October 31:

	2023	2022
Subject to the Society's spending policy and appropriation:		
Donor-restricted endowment funds invested in perpetuity; including accumulated losses of \$65,761 and \$146,805, respectively	\$ 1,755,095	\$ 1,674,051
Not subject to spending policy or appropriations:		
Beneficial interests in perpetual trusts	1,186,948	1,155,965
Pledge receivable—time restriction	806,635	-
	<u>\$ 3,748,678</u>	<u>\$ 2,830,016</u>

Note 9. Endowment Net Assets

Endowment net assets are included in net assets with donor restrictions and are endowment funds which are restricted in perpetuity. Net assets with donor restrictions associated with the Society's endowment funds are classified and reported based on the existence of donor-imposed restrictions. Donors have restricted the earnings of certain endowment funds for educational and scholarship purposes.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) governs endowment funds in the State of Illinois. UPMIFA eliminates the historic dollar value rule with respect to endowment fund spending, updates the prudence standard for the management and investment of charitable funds, and amends the provisions governing the release and modification of restrictions on charitable funds.

The Society's management has interpreted the Illinois 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 net assets with donor restrictions: (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.

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate earnings on 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

The Anti-Cruelty Society

Notes to Financial Statements

Note 9. Endowment Net Assets (Continued)

The Society's endowment composition is as follows for the years ended October 31:

	2023	2022
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 1,820,856	\$ 1,820,856
Accumulated investment losses	(65,761)	(146,805)
	<u>\$ 1,755,095</u>	<u>\$ 1,674,051</u>

Changes in endowment net assets for 2023 and 2022 are as follows:

	2023	2022
Endowment net assets, beginning of year	\$ 1,674,051	\$ 2,006,986
Investment return (loss)	81,044	(332,935)
Endowment net assets, end of year	<u>\$ 1,755,095</u>	<u>\$ 1,674,051</u>

Underwater endowment funds: 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. The Society has interpreted UPMIFA to permit spending from funds with deficiencies in accordance with prudent measures required under the law. Deficiencies of this nature are reported in net assets with donor restrictions. As of October 31, 2023, funds with original gift values totaling \$1,820,856 had deficiencies of \$65,761. As of October 31, 2022, funds with original gift values totaling \$1,820,856 had deficiencies of \$146,805.

Return objectives and risk parameters: The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to 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: To satisfy its long-term rate of return 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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% of its endowment fund's rolling average fair value over the prior 10 years ended October 31. In establishing this policy, the Society considered the long-term expected rate of return on its endowment. 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. In fiscal year 2023, a distribution of \$91,000 was approved by the board of directors during the annual budget process, however, due to recent market performance for investments, the distribution was not taken. No distribution was taken in fiscal year 2022.