

The Anti-Cruelty Society

Financial Report
October 31, 2022

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RSM US LLP

Independent Auditor's Report

Board of Directors
The Anti-Cruelty Society

Opinion

We have audited the accompanying financial statements of The Anti-Cruelty Society (the Society) which comprise the statements of financial position as of October 31, 2022 and 2021, 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, 2022 and 2021, 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 are 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 6, 2023

The Anti-Cruelty Society

**Statements of Financial Position
October 31, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 2,254,962	\$ 2,286,058
Accrued interest and dividends	109,652	93,149
Bequests and other receivables	930,530	2,413,435
Prepaid expense and other current assets	191,849	245,932
Property and equipment, net	7,988,965	9,690,339
Investments	42,496,400	48,356,221
Investments—endowments	1,685,975	2,006,986
Beneficial interest in perpetual trusts	1,155,965	1,504,321
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Total assets	\$ 56,814,298	\$ 66,596,441
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 462,429	\$ 171,619
Accrued payroll and related	224,271	119,775
Accrued vacation	259,739	182,924
Deferred revenue	463,533	357,447
Accrued expenses	121,671	145,873
Other liabilities	73,123	76,769
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Total liabilities	1,604,766	1,054,407
Net assets:		
Without donor restrictions		
Undesignated	22,379,516	6,361,514
Board-designated:		
Capital reserve	5,000,000	5,288,575
Opportunity reserve	-	15,587,380
Business continuity	25,000,000	20,875,956
Other	-	13,917,302
	<hr/>	<hr/>
	52,379,516	62,030,727
With donor restrictions	2,830,016	3,511,307
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Total net assets	55,209,532	65,542,034
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Total liabilities and net assets	\$ 56,814,298	\$ 66,596,441

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
Hospital 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

Statements 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
	<u>425,995</u>	<u>-</u>	<u>425,995</u>
Increase in net assets before other income (loss)	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 income (loss)	(10,077,206)	(681,291)	(10,758,497)
	<u>(9,651,211)</u>	<u>(681,291)</u>	<u>(10,332,502)</u>
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
	<u>52,379,516</u>	<u>2,830,016</u>	<u>55,209,532</u>
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 Activities Year Ended October 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Bequests, contributions, donations and gifts	\$ 4,710,655	\$ -	\$ 4,710,655
Direct mail contributions, donations and gifts	1,615,290	-	1,615,290
Contributions of nonfinancial assets	241,648	-	241,648
Animal care shelter income and grants	88,960	-	88,960
Clinic income and grants	140,740	-	140,740
Adoption fees and grants	557,370	-	557,370
Community program fees and grants	93,517	-	93,517
Marketing revenues	32,361	-	32,361
Special events income, net	281,286	-	281,286
Retail sales, net of discounts	7,547	-	7,547
Investment return designated for operations	2,443,500	-	2,443,500
Net assets released from restriction	422,906	(422,906)	-
Total revenue and other support	10,635,780	(422,906)	10,212,874
Expenses:			
Salaries, benefits, recruitment and training	6,812,497	-	6,812,497
Animal expenses:			
Animal handling and cleaning	109,271	-	109,271
Animal food costs	107,755	-	107,755
Animal microchip and tags	61,968	-	61,968
Animal supplies and transportation	115,114	-	115,114
Hospital expenses and supplies	111,654	-	111,654
Pharmacy expenses	117,236	-	117,236
Program equipment and supplies	277,321	-	277,321
Animal disposition services	22,486	-	22,486
	922,805	-	922,805
Occupancy expenses:			
Supplies and repairs	208,734	-	208,734
Property insurance and permits	62,176	-	62,176
Utilities	227,014	-	227,014
	497,924	-	497,924

(Continued)

The Anti-Cruelty Society

**Statement of Activities (Continued)
Year Ended October 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued):			
Branding and development expenses	\$ 65,504	\$ -	\$ 65,504
Corporate fees and expenses:			
Audit fees	36,900	-	36,900
Bank and service fees	68,267	-	68,267
Direct mail expenses	834,676	-	834,676
Leases	36,417	-	36,417
Legal fees	225,202	-	225,202
Liability insurance and permits	60,427	-	60,427
Fees and corporate expenses	78,112	-	78,112
	<u>1,340,001</u>	<u>-</u>	<u>1,340,001</u>
Other miscellaneous expenses	394,858	-	394,858
Depreciation and amortization	2,082,679	-	2,082,679
	<u>12,116,268</u>	<u>-</u>	<u>12,116,268</u>
Total expenses			
	<u>12,116,268</u>	<u>-</u>	<u>12,116,268</u>
Decrease in net assets before other income	<u>(1,480,488)</u>	<u>(422,906)</u>	<u>(1,903,394)</u>
Other income:			
Investment return less amount designated for operations	5,471,444	277,130	5,748,574
Increase in fair value of beneficial interest in perpetual trusts	-	245,932	245,932
Paycheck Protection Program loan forgiveness	2,365,250	-	2,365,250
Miscellaneous	5,308	-	5,308
Total other income	<u>7,842,002</u>	<u>523,062</u>	<u>8,365,064</u>
Increase in net assets	<u>6,361,514</u>	<u>100,156</u>	<u>6,461,670</u>
Net assets:			
Beginning of year	<u>55,669,213</u>	<u>3,411,151</u>	<u>59,080,364</u>
End of year	<u>\$ 62,030,727</u>	<u>\$ 3,511,307</u>	<u>\$ 65,542,034</u>

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
Hospital 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
	\$ 4,302,116	\$ 4,056,213	\$ 3,572,803	\$ 37,822	\$ 11,968,954	\$ 2,015,691	\$ 1,010,792	\$ 3,026,483	\$ 14,995,437

See notes to financial statements.

The Anti-Cruelty Society

Statement of Functional Expenses Year Ended October 31, 2021

	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	\$ 2,435,541	\$ 1,702,226	\$ 1,719,231	\$ 47,165	\$ 5,904,163	\$ 335,875	\$ 572,459	\$ 908,334	\$ 6,812,497
Animal handling and cleaning	104,606	-	4,665	-	109,271	-	-	-	109,271
Animal food costs	107,455	-	300	-	107,755	-	-	-	107,755
Animal microchip and tags	400	61,568	-	-	61,968	-	-	-	61,968
Animal supplies and transportation	112,105	-	3,009	-	115,114	-	-	-	115,114
Hospital expenses and supplies	-	106,548	5,106	-	111,654	-	-	-	111,654
Pharmacy expenses	-	117,236	-	-	117,236	-	-	-	117,236
Program equipment and supplies	19,802	1,171	229,752	26,596	277,321	-	-	-	277,321
Animal disposition services	22,486	-	-	-	22,486	-	-	-	22,486
Supplies and repairs	66,232	55,920	69,383	1,461	192,996	7,723	8,015	15,738	208,734
Property insurance and permits	19,728	16,657	20,667	435	57,487	2,301	2,388	4,689	62,176
Utilities	72,033	60,817	75,459	1,589	209,898	8,399	8,717	17,116	227,014
Branding and development expenses	16,743	19,682	15,088	940	52,453	13,051	-	13,051	65,504
Audit fees	-	-	-	-	-	-	36,900	36,900	36,900
Bank and service fees	-	-	-	-	-	32,664	35,603	68,267	68,267
Direct mail expenses	-	-	-	-	-	834,676	-	834,676	834,676
Leases	10,069	10,015	10,561	310	30,955	2,677	2,785	5,462	36,417
Legal fees	-	-	-	-	-	37,827	187,375	225,202	225,202
Liability insurance and permits	16,903	16,543	17,446	511	51,403	4,423	4,601	9,024	60,427
Fees and corporate expenses	1,484	-	-	-	1,484	21,801	54,827	76,628	78,112
Other miscellaneous expenses	93,545	69,485	109,419	2,397	274,846	87,923	32,089	120,012	394,858
Depreciation and amortization	667,659	550,189	682,653	14,376	1,914,877	88,940	78,862	167,802	2,082,679
	<u>\$ 3,766,791</u>	<u>\$ 2,788,057</u>	<u>\$ 2,962,739</u>	<u>\$ 95,780</u>	<u>\$ 9,613,367</u>	<u>\$ 1,478,280</u>	<u>\$ 1,024,621</u>	<u>\$ 2,502,901</u>	<u>\$ 12,116,268</u>

See notes to financial statements.

The Anti-Cruelty Society

**Statements of Cash Flows
Years Ended October 31, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (10,332,502)	\$ 6,461,670
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,999,842	2,082,679
Realized and unrealized loss (gain) on investments	7,923,870	(7,450,113)
Noncash donations of investments	(282,531)	(241,156)
Decrease (increase) in fair value of beneficial interest in trust	348,356	(245,932)
Forgiveness of Paycheck Protection Program loans	-	(2,365,250)
Changes in operating assets and liabilities:		
Accrued interest and dividends	(16,503)	2,467
Bequests other receivables	1,482,905	1,077,309
Prepaid expenses and other current assets	54,083	(34,072)
Accounts payable	290,810	(94,099)
Accrued payroll and related	104,496	7,706
Accrued vacation	76,815	(15,025)
Deferred revenue	106,086	357,447
Accrued expenses	(24,202)	(47,874)
Other liabilities	(3,646)	(5,308)
Net cash provided by (used in) operating activities	1,727,879	(509,551)
Cash flows from investing activities:		
Purchases of property and equipment	(298,468)	(145,714)
Proceeds from the sales of investments	43,387,272	16,980,655
Purchases of investments	(44,847,779)	(21,202,936)
Net cash used in investing activities	(1,758,975)	(4,367,995)
Net cash from financing activities		
Proceeds from Paycheck Protection Program loan	-	1,291,000
Net cash provided by financing activities	-	1,291,000
Net decrease in cash and cash equivalents	(31,096)	(3,586,546)
Cash and cash equivalents:		
Beginning of year	2,286,058	5,872,604
End of year	\$ 2,254,962	\$ 2,286,058

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, unlimited stay humane society, chartered in Illinois. With a mission of building a happy and healthy community where pets and people thrive together, its comprehensive programs and services help over 30,000 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 4,263 animals in homes in 2022.

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 charity veterinary 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 underserved 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 944 and 750 approved foster homes who cared for 1,310 and 1,600 foster animals in 2022 and 2021, 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 a 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 while providing care at a new mobile care clinic; partner with human services organizations to help connect people to pet health care and other resources; create a new animal health workforce program to build a talent pipeline within the sector; 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.

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 activity, 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 activity.

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.

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 Anti-Cruelty Society

Notes to Financial Statements

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

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. The Society's board of directors approved an updated reserve policy in August 2022, resulting in changes to board designated net assets as previously reported.

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.

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.

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, 2022, the Society recorded in-kind legal services totaling \$5,000. For the year ended October 31, 2021, the Society recorded in-kind legal services totaling \$187,375 and donated animal food totaling \$54,273.

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.

The Anti-Cruelty Society

Notes to Financial Statements

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

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.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP 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 and expenses during the reporting period. Actual results could differ from those estimates.

Accounting pronouncement adopted: In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a nonprofit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. The ASU also requires a nonprofit entity to disclose contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets. The new standard resulted in changes to presentation of contributed nonfinancial assets in the statement of activities and additional disclosures.

Pending accounting pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance and subsequently issued amendments, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Society in the fiscal year ending October 31, 2023.

The Society is currently evaluating the effect that this standard will have on the financial statements.

Subsequent events: The Society has evaluated subsequent events for potential recognition and/or disclosure through March 6, 2023, 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, 2022 and 2021, 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.

	2022	2021
Cash and cash equivalents	\$ 2,254,962	\$ 2,286,058
Accrued interest and dividends receivable	109,652	93,149
Bequests and other receivables	930,530	2,413,435
Investments	42,496,400	48,356,221
Investments—endowments	1,685,975	2,006,986
Beneficial interest in perpetual trusts	1,155,965	1,504,321
Financial assets at year-end	<u>48,633,484</u>	<u>56,660,170</u>
Less those unavailable for general expenditures within one year:		
Board-designated net assets, capital reserve	5,000,000	5,288,575
Board-designated net assets, business continuity	25,000,000	20,875,956
Investments—endowments	1,685,975	2,006,986
Beneficial interest in perpetual trusts	1,155,965	1,504,321
	<u>32,841,940</u>	<u>29,675,838</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 15,791,544</u>	<u>\$ 26,984,332</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 \$1,800,000 and \$1,500,000 at October 31, 2022 and 2021, 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 6.75% 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:

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.

The Anti-Cruelty Society

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

For the years ended October 31, 2022 and 2021, 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, 2022 and 2021, and the valuation techniques used by the Society to determine those fair values.

	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>

The Anti-Cruelty Society

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

	2021			
	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	\$ -	\$ 17,247,530	\$ -	\$ 17,247,530
Equity mutual funds	13,529,799	-	-	13,529,799
Common stocks	17,578,892	-	-	17,578,892
	<u>31,108,691</u>	<u>17,247,530</u>	<u>-</u>	<u>48,356,221</u>
Endowment investments at fair value:				
Fixed-income securities	-	2,006,986	-	2,006,986
Other assets at fair value:				
Beneficial interest in trusts	-	-	1,504,321	1,504,321
Total assets	<u>\$ 31,108,691</u>	<u>\$ 19,254,516</u>	<u>\$ 1,504,321</u>	<u>\$ 51,867,528</u>

For the years ended October 31, 2022 and 2021, investment (loss) return was comprised as follows:

	2022	2021
Interest and dividend income, net of investment fees	\$ 781,773	\$ 741,961
Realized and changed in unrealized (loss) gain on investments	(7,923,870)	7,450,113
	<u>\$ (7,142,097)</u>	<u>\$ 8,192,074</u>

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

	2022	2021
Investment return designated for operations	\$ 3,271,692	\$ 2,443,500
Investment (loss) return less amount designated for operations	(10,413,789)	5,748,574
	<u>\$ (7,142,097)</u>	<u>\$ 8,192,074</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 0.45% to 33.30%.

For the years ended October 31, 2022 and 2021, beneficial interest in perpetual trusts is as follows:

	2022	2021
Beneficial interest in perpetual trusts, beginning of year	\$ 1,504,321	\$ 1,258,389
Change in fair value of perpetual trusts	(348,356)	245,932
Beneficial interest in perpetual trusts, end of year	<u>\$ 1,155,965</u>	<u>\$ 1,504,321</u>

Net decrease in fair value of perpetual trusts of \$348,356 and net increase in fair value of perpetual trusts of \$245,932 for years ended October 31, 2022 and 2021, 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	2022 Amount	2021 Amount
Land and improvements	15	\$ 215,648	\$ 215,648
Buildings and improvements	15-50	30,465,408	30,465,408
Furniture and equipment	3-7	1,153,638	1,175,508
Vehicles	5	329,678	197,332
Films and media	5	530,092	530,092
Construction in progress		29,697	20,270
Total cost		<u>32,724,161</u>	<u>32,604,258</u>
Accumulated depreciation		(24,735,196)	(22,913,919)
Net property and equipment		<u>\$ 7,988,965</u>	<u>\$ 9,690,339</u>

Depreciation expense for the years ended October 31, 2022 and 2021, was \$1,999,842 and \$2,082,679, respectively.

Note 6. Paycheck Protection Program Loan

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) introduced the Paycheck Protection Program (PPP) to provide funding to small businesses with the goal of preventing job loss and business failure due to losses caused by the COVID-19 pandemic. A borrower of a PPP loan is eligible for loan forgiveness up to the full amount of the loan and any accrued interest for costs incurred and payments made during the 24-week period after the lender makes the first disbursement of the PPP loan to the borrower, subject to proper documentation.

The Anti-Cruelty Society

Notes to Financial Statements

Note 6. Paycheck Protection Program Loan (Continued)

The Society was eligible to apply for a PPP loan as a nonprofit organization that employed no more than 500 employees whose principal place of residence is in the United States and was in operation as of February 15, 2020.

In fiscal year 2021, the Society applied for and received a PPP (its second) loan through BMO Harris Bank in the amount of \$1,291,000. The loan was forgiven on August 30, 2021 and is recorded as other income in the statement of activities for the year ended October 31, 2021.

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 \$197,627 and \$162,531 for the year ended October 31, 2022 and 2021, respectively.

In fiscal year 2022, the Society established a Section 457(f) non-qualified deferred compensation plan for certain employees. There were no contributions to this plan for the year ended October 31, 2022.

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions were as follows for the years ended October 31, 2022 and 2021:

	2022	2021
Subject to the Society's spending policy and appropriation:		
Donor-restricted endowment funds invested in perpetuity; including accumulated losses of \$146,805 and earnings of \$186,130, respectively	\$ 1,674,051	\$ 2,006,986
Not subject to spending policy or appropriations:		
Beneficial interests in perpetual trusts	1,155,965	1,504,321
	<u>\$ 2,830,016</u>	<u>\$ 3,511,307</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 Anti-Cruelty Society

Notes to Financial Statements

Note 9. Endowment Net Assets (Continued)

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 Society's endowment composition is as follows for the years ended October 31, 2022 and 2021:

	2022	2021
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) gains	(146,805)	186,130
	<u>\$ 1,674,051</u>	<u>\$ 2,006,986</u>

Changes in endowment net assets for 2022 and 2021 are as follows:

	2022	2021
Endowment net assets, beginning of year	\$ 2,006,986	\$ 1,820,856
Investment (loss) return	(332,935)	277,130
Appropriation of endowment assets for expenditure	-	(91,000)
Endowment net assets, end of year	<u>\$ 1,674,051</u>	<u>\$ 2,006,986</u>

The Anti-Cruelty Society

Notes to Financial Statements

Note 9. Endowment Net Assets (Continued)

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, 2022, funds with original gift values totaling \$1,820,856 had deficiencies of \$146,805. As of October 31, 2021, there were no funds with deficiencies.

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 2022, a distribution of \$91,000 was approved by the board of directors during the annual budget process, however, due to market performance for investments, the distribution was not taken. An approved distribution of \$91,000 was taken in fiscal year 2021.