



**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
CRUELTY TO ANIMALS**

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

The Board of Directors  
The American Society for the Prevention of  
Cruelty to Animals:

We have audited the accompanying balance sheet of The American Society for the Prevention of Cruelty to Animals (the Society) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Society as of December 31, 2009, were audited by other auditors whose report, dated September 7, 2010, was unqualified and included an explanatory paragraph that described a restatement to the Society's net assets as of January 1, 2009, as discussed in note B to the 2009 financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of The American Society for the Prevention of Cruelty to Animals as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

September 14, 2011

**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
CRUELTY TO ANIMALS**

Balance Sheets

December 31, 2010 and 2009

<b>Assets</b>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 27,869,029	31,092,106
Prepaid expenses and other assets	3,373,242	4,175,052
Bequests and contributions receivable	11,655,029	10,723,586
Other receivables, net of allowance of \$37,000	2,903,214	2,590,026
Investments (note 3)	116,909,083	90,578,644
Beneficial interest in trusts held by others (note 5)	18,980,563	19,498,758
Land, building, and equipment, net (note 4)	<u>27,873,952</u>	<u>26,235,233</u>
Total assets	<u>\$ 209,564,112</u>	<u>184,893,405</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 11,384,828	9,092,703
Grants payable	847,480	707,352
Deferred income	579,229	1,271,614
Deferred rent	1,498,643	1,161,196
Annuity obligations	3,343,201	2,859,366
Unfunded pension obligation (note 6)	<u>3,886,329</u>	<u>3,143,006</u>
Total liabilities	<u>21,539,710</u>	<u>18,235,237</u>
Commitments and contingencies (note 7)		
Net assets (notes 9 and 10):		
Unrestricted	128,171,690	107,111,609
Temporarily restricted	37,249,799	37,843,369
Permanently restricted	<u>22,602,913</u>	<u>21,703,190</u>
Total net assets	<u>188,024,402</u>	<u>166,658,168</u>
Total liabilities and net assets	<u>\$ 209,564,112</u>	<u>184,893,405</u>

See accompanying notes to financial statements.

**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
CRUELTY TO ANIMALS**

Statement of Activities

Year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating support and revenues:				
Contributions, grants, and memberships	\$ 95,959,752	1,420,201	—	97,379,953
Federated campaigns	2,796,948	—	—	2,796,948
Bequests and trust income	4,100,784	7,429,851	—	11,530,635
Animal health services fees	13,500,750	—	—	13,500,750
Royalties and licenses	2,808,986	—	—	2,808,986
Special events, net of expenses of \$527,070	436,474	329,000	—	765,474
Other revenues (note 4)	1,450,274	—	—	1,450,274
Net assets released from restrictions	10,322,863	(10,322,863)	—	—
Total operating support and revenues	<u>131,376,831</u>	<u>(1,143,811)</u>	<u>—</u>	<u>130,233,020</u>
Operating expenses:				
Program expenses (note 8):				
Animal health services	26,675,363	—	—	26,675,363
Community outreach	15,136,052	—	—	15,136,052
Anti-cruelty programs	10,787,891	—	—	10,787,891
Grants and sponsorships	7,316,913	—	—	7,316,913
Communications	28,941,215	—	—	28,941,215
Total program expenses	<u>88,857,434</u>	<u>—</u>	<u>—</u>	<u>88,857,434</u>
Supporting expenses:				
Membership development and fundraising	25,777,210	—	—	25,777,210
Management and general	5,221,402	—	—	5,221,402
Total supporting expenses	<u>30,998,612</u>	<u>—</u>	<u>—</u>	<u>30,998,612</u>
Total operating expenses	<u>119,856,046</u>	<u>—</u>	<u>—</u>	<u>119,856,046</u>
Change in net assets from operating activities	11,520,785	(1,143,811)	—	10,376,974
Nonoperating activities:				
Bequests and trust income restricted for endowment	—	—	153,000	153,000
Investment return (note 3)	10,454,574	550,241	—	11,004,815
Unrealized gains on beneficial interests in trusts held by others (note 5)	—	—	746,723	746,723
Pension related charges other than net periodic pension cost (note 6)	(915,278)	—	—	(915,278)
Change in net assets	<u>21,060,081</u>	<u>(593,570)</u>	<u>899,723</u>	<u>21,366,234</u>
Net assets at beginning of year	<u>107,111,609</u>	<u>37,843,369</u>	<u>21,703,190</u>	<u>166,658,168</u>
Net assets at end of year	<u>\$ 128,171,690</u>	<u>37,249,799</u>	<u>22,602,913</u>	<u>188,024,402</u>

See accompanying notes to financial statements.

**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
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Statement of Activities

Year ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating support and revenues:				
Contributions, grants, and memberships	\$ 84,248,599	1,881,811	—	86,130,410
Federated campaigns	2,495,641	—	—	2,495,641
Bequests and trust income	6,527,899	5,064,923	—	11,592,822
Donated media resources	585,453	—	—	585,453
Animal health services fees	13,195,463	—	—	13,195,463
Royalties and licenses	2,288,363	—	—	2,288,363
Special events, net of expenses of \$468,711	448,729	206,250	—	654,979
Other revenues (note 4)	1,831,709	—	—	1,831,709
Net assets released from restrictions	6,484,377	(6,484,377)	—	—
Total operating support and revenues	<u>118,106,233</u>	<u>668,607</u>	<u>—</u>	<u>118,774,840</u>
Operating expenses:				
Program expenses (note 8):				
Animal health services	24,312,901	—	—	24,312,901
Community outreach	15,409,951	—	—	15,409,951
Anti-cruelty programs	9,002,907	—	—	9,002,907
Grants and sponsorships	5,024,241	—	—	5,024,241
Communications	26,413,225	—	—	26,413,225
Total program expenses	<u>80,163,225</u>	<u>—</u>	<u>—</u>	<u>80,163,225</u>
Supporting expenses:				
Membership development and fundraising	19,925,059	—	—	19,925,059
Management and general	7,765,922	—	—	7,765,922
Total supporting expenses	<u>27,690,981</u>	<u>—</u>	<u>—</u>	<u>27,690,981</u>
Total operating expenses	<u>107,854,206</u>	<u>—</u>	<u>—</u>	<u>107,854,206</u>
Change in net assets from operating activities	10,252,027	668,607	—	10,920,634
Nonoperating activities:				
Bequests and trust income restricted for endowment	—	—	1,350,587	1,350,587
Investment return (note 3)	16,553,246	—	—	16,553,246
Unrealized gains on beneficial interests in trusts held by others (note 5)	—	81,905	1,774,244	1,856,149
Pension related charges other than net periodic pension cost (note 6)	677,134	—	—	677,134
Change in net assets	<u>27,482,407</u>	<u>750,512</u>	<u>3,124,831</u>	<u>31,357,750</u>
Net assets at beginning of year	<u>79,629,202</u>	<u>37,092,857</u>	<u>18,578,359</u>	<u>135,300,418</u>
Net assets at end of year	<u>\$ 107,111,609</u>	<u>37,843,369</u>	<u>21,703,190</u>	<u>166,658,168</u>

See accompanying notes to financial statements.

**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
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Statement of Functional Expenses  
Year ended December 31, 2010

	Program expenses					Supporting expenses				
	Animal health services	Community outreach	Anti-cruelty Programs	Grants and sponsorships	Communications	Total program expenses	Membership development and fundraising	Management and general	Total supporting expenses	Total expenses
Compensation	\$ 13,849,446	7,302,271	5,157,739	203,314	2,912,389	29,425,159	3,141,908	2,222,081	5,363,989	34,789,148
Employee benefits	4,549,862	2,378,646	1,381,974	47,392	863,026	9,220,900	888,764	601,962	1,490,726	10,711,626
Supplies	623,427	1,363,560	398,453	2,878	109,409	2,497,727	85,243	40,794	126,037	2,623,764
Telephone	333,205	154,450	147,484	3,742	72,054	710,935	56,347	33,218	89,565	800,500
Postage and shipping	49,651	29,112	151,531	443	3,764,958	3,995,695	3,578,784	14,499	3,593,283	7,588,978
Rent	256,961	224,372	421,546	23,406	529,118	1,455,403	506,050	343,926	849,976	2,305,379
Repairs and maintenance	237,521	355,945	38,622	1,009	24,375	657,472	23,421	19,149	42,570	700,042
Data processing	525,744	125,663	249,209	28,475	4,916,421	5,845,512	3,085,953	35,586	3,121,539	8,967,051
Printing	26,867	8,389	64,647	252	2,796,139	2,896,294	2,742,186	1,491	2,743,677	5,639,971
Auto expenses	219,819	19,280	113,828	17	485	353,429	469	527	996	354,425
Travel, conferences, and seminars	357,717	727,313	610,157	15,644	230,386	1,941,217	187,201	61,111	248,312	2,189,529
Insurance	125,574	82,389	179,592	1,410	34,309	423,274	28,063	25,097	53,160	476,434
Utilities	152,891	243,863	61,450	2,134	49,994	510,332	48,032	32,335	80,367	590,699
Veterinary and medical services	3,337,041	259,431	140,636	—	—	3,737,108	—	—	—	3,737,108
Advertising and media information	150,306	64,396	134,500	—	7,927,385	8,276,587	6,836,423	—	6,836,423	15,113,010
Professional services	761,120	898,374	1,026,642	14,463	3,979,055	6,679,654	4,358,634	1,386,771	5,745,405	12,425,059
Grants	—	—	—	6,926,740	—	6,926,740	—	—	—	6,926,740
Other	382,515	105,184	208,604	12,999	48,837	758,139	73,702	245,645	319,347	1,077,486
<b>Total expenses before depreciation and amortization</b>	<b>25,939,667</b>	<b>14,342,638</b>	<b>10,486,614</b>	<b>7,284,318</b>	<b>28,258,340</b>	<b>86,311,577</b>	<b>25,641,180</b>	<b>5,064,192</b>	<b>30,705,372</b>	<b>117,016,949</b>
<b>Depreciation and amortization</b>	<b>735,696</b>	<b>793,414</b>	<b>301,277</b>	<b>32,595</b>	<b>682,875</b>	<b>2,545,857</b>	<b>136,030</b>	<b>157,210</b>	<b>293,240</b>	<b>2,839,097</b>
<b>Total expenses</b>	<b>\$ 26,675,363</b>	<b>\$ 15,136,052</b>	<b>\$ 10,787,891</b>	<b>\$ 7,316,913</b>	<b>\$ 28,941,215</b>	<b>\$ 88,857,434</b>	<b>\$ 25,777,210</b>	<b>\$ 5,221,402</b>	<b>\$ 30,998,612</b>	<b>\$ 119,856,046</b>

See accompanying notes to financial statements.

**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
CRUELTY TO ANIMALS**

Statement of Functional Expenses  
Year ended December 31, 2009

	Program expenses					Supporting expenses			
	Animal health services	Community outreach	Anti-cruelty Programs	Grants and sponsorships	Communications	Total program expenses	Membership development and fundraising	Management and general	Total supporting expenses
Compensation	12,368,607	7,011,645	4,421,723	127,074	2,624,023	26,553,072	2,528,041	2,426,779	4,954,820
Employee benefits	4,045,651	2,214,193	1,324,432	30,469	733,837	8,348,582	658,494	679,898	1,338,392
Supplies	382,333	1,676,690	206,531	2,325	87,300	2,355,179	204,568	54,332	258,900
Telephone	265,977	205,280	153,159	4,575	97,567	726,558	99,751	75,123	174,874
Postage and shipping	31,342	70,322	142,223	438	3,553,541	3,797,866	2,979,932	35,379	3,015,311
Rent	219,991	175,736	804,204	14,718	410,103	1,624,752	428,819	190,475	619,294
Repairs and maintenance	168,779	328,800	38,320	328	14,681	550,908	10,024	8,967	18,991
Data processing	632,613	139,727	252,048	5,375	4,083,062	5,112,825	2,590,367	208,852	2,799,219
Printing	17,160	30,377	69,848	21	3,190,552	3,307,958	2,735,860	3,408	2,739,268
Auto expenses	165,256	26,167	41,568	10	486	233,487	347	3,623	3,970
Travel, conferences, and seminars	375,168	1,144,837	247,979	7,764	234,536	2,010,284	177,639	119,705	297,344
Insurance	117,167	131,322	168,507	791	26,875	444,662	22,556	13,976	36,532
Utilities	107,502	259,979	78,803	977	32,017	479,278	28,850	15,381	44,231
Veterinary and medical services	3,555,116	161,244	40,387	—	—	3,756,747	—	—	—
Advertising and media information	171,544	234,169	102,730	—	7,278,691	7,787,134	3,856,618	3,968	3,860,586
Professional services	643,160	712,801	607,619	8,930	3,820,844	5,793,354	3,447,803	3,662,225	7,110,028
Grants	—	—	—	4,793,365	—	4,793,365	—	—	—
Other	359,842	61,484	54,104	9,336	108,174	592,940	61,039	86,498	147,537
<b>Total expenses before depreciation and amortization</b>	<b>23,627,208</b>	<b>14,584,773</b>	<b>8,754,185</b>	<b>5,006,496</b>	<b>26,296,289</b>	<b>78,268,951</b>	<b>19,830,708</b>	<b>7,588,589</b>	<b>27,419,297</b>
<b>Depreciation and amortization</b>	<b>685,693</b>	<b>825,178</b>	<b>248,722</b>	<b>17,745</b>	<b>116,936</b>	<b>1,894,274</b>	<b>94,351</b>	<b>177,333</b>	<b>271,684</b>
<b>Total expenses</b>	<b>\$ 24,312,901</b>	<b>\$ 15,409,951</b>	<b>\$ 9,002,907</b>	<b>\$ 5,024,241</b>	<b>\$ 26,413,225</b>	<b>\$ 80,163,225</b>	<b>\$ 19,925,059</b>	<b>\$ 7,765,922</b>	<b>\$ 27,690,981</b>

See accompanying notes to financial statements.

**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
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Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 21,366,234	31,357,750
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,924,737	2,250,908
Donated securities	(375,808)	(187,585)
Net investment gains	(9,559,018)	(15,247,475)
Unrealized gains on beneficial interests in trusts held by others	(746,723)	(1,856,149)
Contributions restricted for endowments	(153,000)	(1,350,587)
Changes in assets and liabilities:		
Decrease in prepaids and other assets	801,810	8,202,318
(Increase) decrease in other receivables, net	(313,188)	(312,475)
(Increase) decrease in bequests and contributions receivable	(931,443)	4,800,860
Decrease (increase) in beneficial interests in trusts held by others	1,264,918	(529,128)
Increase in accounts payable and accrued expenses	2,292,125	1,320,796
Increase (decrease) in other liabilities	1,012,348	(1,672,534)
Net cash provided by operating activities	<u>17,582,992</u>	<u>26,776,699</u>
Cash flows from investing activities:		
Additions to land, building, and equipment	(4,563,456)	(1,124,698)
Purchases of investments	(34,386,388)	(43,120,270)
Proceeds from sales of investments	17,990,775	25,057,480
Net cash used in investing activities	<u>(20,959,069)</u>	<u>(19,187,488)</u>
Cash flows from financing activities:		
Contributions restricted for endowments	153,000	1,350,587
Net change in cash and cash equivalents	<u>(3,223,077)</u>	<u>8,939,798</u>
Cash and cash equivalents, beginning of year	<u>31,092,106</u>	<u>22,152,308</u>
Cash and cash equivalents, end of year	<u>\$ 27,869,029</u>	<u>31,092,106</u>

See accompanying notes to financial statements.

**THE AMERICAN SOCIETY FOR THE PREVENTION OF  
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Notes to Financial Statements

December 31, 2010 and 2009

**(1) Description of the Organization**

The American Society for the Prevention of Cruelty to Animals (the Society or ASPCA) is North America's first humane organization. The ASPCA provides effective means for the prevention of cruelty to animals throughout the United States. It has been headquartered in New York City since its founding in 1866 where it maintains a strong local presence. ASPCA's activities are focused on five primary program areas: anti-cruelty programs, animal health services, community outreach, and public awareness communications. It also manages an extensive program of grants and sponsorships to other animal welfare-related organizations. The ASPCA is a privately funded 501(c)(3) not-for-profit corporation. The ASPCA's vision is that all animals are to be treated with respect and kindness.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (US GAAP).

**(b) Net Asset Classifications**

The Society's net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

*Unrestricted* – resources that are available for the general support of the Society's operations. The Society's Board of Directors (Board) has approved the establishment of a long-term investment policy for operating reserves (designated fund) to ensure the stability of the mission, programs, employment, and ongoing operations of the Society and to provide a source of internal funds for organization priorities.

*Temporarily Restricted* – net assets that have been limited by donor-imposed restrictions that expire with the passage of time or that can be fulfilled by actions of the Society pursuant to those restrictions. When a time restriction or purpose restriction is satisfied, those temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net asset released from restrictions.

*Permanently Restricted* – net assets whereby donors have stipulated that the principal contributed be invested and retained in perpetuity, with investment return available for expenditure according to the restrictions, if any, imposed by those donors. Such resources also include the Society's beneficial interests in perpetual trusts held by others.

**(c) Cash and Cash Equivalents**

Cash equivalents are defined as short-term highly liquid investments with original maturities of three months or less, except for those cash equivalents included in the Society's investment portfolio that are held for long-term investment purposes.

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**(d) Fair Value**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The Society measures fair value of its financial assets using a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy is categorized into three levels using the following guidelines:

Level 1 – Inputs are quoted prices in active markets for identical assets, which are directly observable at year-end.

Level 2 – Inputs are other than quoted prices in active markets, which may be directly or indirectly observable at year-end. These may be for similar but not identical securities in less frequently traded markets, and inputs may be derived from or corroborated by observable market data by correlation or other means. Also included in Level 2 are investments measured using a net asset value (NAV) per share, or its equivalent, that may be redeemed at that NAV at or near the balance sheet date.

Level 3 – Holdings that have little or no pricing observability at year-end. These are measured using management's best estimate of fair value, where inputs to determine fair value are not observable and require significant management judgment and estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that cannot be redeemed at the NAV near the balance sheet date, or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

The carrying value of cash, cash equivalents, prepaid expenses and other assets, accounts payable and accrued expenses, and grants payable is a reasonable estimate of their fair value due to their short-term nature. The carrying amounts of the Society's investments approximate fair value. The carrying value of bequests and contributions receivable is estimated based on the present value of expected future cash flows from these receivables, and thus approximates fair value.

**(e) Split-Interest Agreements**

The Society has recognized the following type of split-interest agreements:

**Perpetual Trusts Held by a Third Party**

Donors have established and funded trusts that are administered by third-party organizations. Under the terms of these trusts, the Society has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. The Society does not control the assets held by the respective third-party trustees. Accordingly, the Society recognizes its interest

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in such trusts, based on the fair value of the assets contributed to the trusts and records them as permanently restricted contributions.

**Charitable Remainder Trusts**

Donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trusts' term. Upon termination of the trusts, the Society receives the assets remaining in those trusts. Trusts are recorded as increases to net assets at the fair value of trust assets, less the present value of the estimated future payments to be made under the specific terms of the trusts.

**Charitable Gift Annuities**

Donors have contributed assets to the Society in exchange for a promise by the Society to pay a fixed amount or percentage for a specified period of time to such donors or to individuals or organizations designated by those donors. Under the terms of such agreements, no trusts exist as the assets received are held by, and the annuity liability is an obligation of, the Society. The discount rates used to measure the liabilities ranged from 1.8% to 3.4% at December 31, 2010 and 2.0% to 3.4% at December 31, 2009.

Assets held under split-interest agreements and beneficial interests in third-party trusts are recognized as revenue when notification of an irrevocable split-interest agreement exists and when fair value can reasonably be determined.

**(f) Investments**

Debt and equity securities are recorded at fair value determined on the basis of quoted market prices.

Investments in alternative investments consist of nonmarketable securities for which there are no readily observable market values. Values for these investments, which are generally subject to certain withdrawal restrictions, are provided by the fund managers and may be based on appraisals, obtainable prices for similar assets, or other estimates. The valuations are reviewed by the Society for reasonableness. As a practical expedient, the Society records the fair value of certain of these investments (those that meet certain eligibility criteria) at the investee's NAV per share or its equivalent. Because of the inherent uncertainty of valuation for certain investments in such funds, their values may differ significantly from values that would have been used had a readily available market for such investments existed, and such differences could be material.

Investment transactions are accounted for on the dates the purchases or sales are executed (trade date). Dividend income is recorded on the ex-dividend date; interest income is recorded as earned on the accrual basis.

**(g) Land, Building, and Equipment**

Land owned by the Society is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation that is calculated using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance that do not improve or extend the life of the respective

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asset are charged to expense as incurred. At the time fixed assets are retired or disposed of, the fixed asset and related accumulated depreciation accounts are relieved of the applicable amounts, and any gain or loss is credited or charged to current operations. Fixed assets costing greater than \$1,000 (computers) or \$2,000 (all other fixed assets) and with a useful life of greater than one year are capitalized.

**(h) *Royalties and Program Services Fees***

The Society enters into various agreements that provide royalty and licensing revenues. Revenues relating to royalty contracts are recognized in accordance with the terms and conditions included therein.

Program service fee revenues, primarily from the animal hospital and animal poison control center, are recognized when services have been performed.

**(i) *Contributions, Grants, Memberships, and Federated Campaigns***

Unless specifically restricted by the donor, all contributions are considered to be available for unrestricted use. Contributions are recognized as income, at their fair value, when they become unconditional promises to give. Contributions of securities and other tangible assets are recorded at fair value at the date of gift. Conditional contributions and promises to give are recorded as revenue when the conditions on which they depend have been substantially met. Bequests are recorded as income when notification of an irrevocable right to receive such assets exists and when a fair value can reasonably be determined.

During 2010 and 2009, the Society received notification of certain intentions to give. However, due to their conditional nature, these gifts have not been reflected in the accompanying financial statements.

**(j) *Donated Services and Gifts in Kind***

Donated media resources for public service videos and sign displays related to the Society's mission are recorded based on published average advertising rates and the number of airings reported by television stations. The value of such resources, \$27,000 in 2010 and \$585,000 in 2009, is included within revenue and support and communication program expenses.

A substantial number of volunteers have donated significant amounts of time and services in the Society's program operations and in its fundraising campaigns, however, such contributed services do not meet the criteria for recognition of contributed service in accordance with generally accepted accounting principles and, accordingly, are not reflected in the accompanying financial statements.

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**(k) Functional Allocation of Expenses**

Expenses are presented according to the programs for which they were incurred and are summarized on a functional basis in the accompanying statements of activities. The various programs and supporting services of the Society follow:

*Animal health services* – includes the Bergh Memorial Animal Hospital and mobile spay/neuter clinics in New York City and the Animal Poison Control Center, a 24-hour animal poison control telephone hotline in Urbana, Illinois, and animal behavior activities.

*Community outreach* – includes a state-of-the-art animal adoptions center in New York City and extensive outreach, education, and training programs in communities throughout the United States.

*Anti-cruelty programs* – includes humane law enforcement in New York as well as national, state, and local legislative initiatives, as well as animal field investigative and animal forensic activities.

*Grants and sponsorships* – represents programs designed to ensure the Society's leadership in serving the animal welfare field.

*Communications* – includes activities to create public awareness of animal-related issues.

*Membership development and fundraising* – involves the direction of the overall fundraising affairs of the Society, which include development and related areas.

*Management and general* – includes the direction of the overall affairs of the Society, such as portions of accounting, human resources, administration, and related areas.

**(l) Concentration of Market and Credit Risks**

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash, cash equivalents, and investments. The Society maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, the Society's cash accounts are placed with high-credit quality financial institutions, while the Society's investment portfolio is diversified with several investment managers in a variety of asset classes. The Society regularly evaluates its depository arrangements and investments, including performance thereof.

**(m) Estimates**

The preparation of financial statements in conformity with US 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 revenues and expenses during the reporting period. The more significant estimates relate to the valuation of the pension benefit obligation, alternative investments, annuity obligations, and the

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beneficial interest in third-party trusts; the useful lives of fixed assets; the functional allocation of expenses; and the collectibility of receivables. Actual results could differ from those estimates.

**(n) Measure of Operations**

The Society uses the “change in net assets from operating activities” as the measure of net assets that are available to support current and future programs and services. Operating activities include all revenues and expenses related to carrying out the Society’s mission. Nonoperating activities include resources that generate income from investments, bequest and trust income restricted for endowment, changes in beneficial interests in trusts held by others, actuarial adjustments to the Society’s frozen pension plan, and other activities considered to be of a more unusual or nonrecurring nature.

**(o) Income Taxes**

The ASPCA qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and, is not subject to federal income taxes. Accordingly, donors are entitled to a charitable contribution deduction as defined in the IRC. Continued qualification of tax-exempt status is contingent upon compliance with the requirements of the IRC.

The ASPCA recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes was required for 2010 or 2009.

**(p) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**(3) Investments**

The fair value and cost basis (specific identification) of investments as of December 31 are as follows:

	<b>2010</b>		<b>2009</b>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Short-term investments	\$ 8,068,190	8,068,190	2,100,762	2,100,762
Common stock	28,093,165	24,464,295	22,544,918	21,474,414
Fixed income securities	4,419,225	4,337,208	1,625,070	1,508,934
Certificates of deposit	—	—	491,561	490,000
Mutual funds	49,961,400	47,639,705	42,256,255	45,382,779
Alternative investments	26,367,103	24,228,098	21,560,078	21,008,881
	<u>\$ 116,909,083</u>	<u>108,737,496</u>	<u>90,578,644</u>	<u>91,965,770</u>



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Changes in Level 3 investments for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 10,798,707	11,273,367
Purchases, net	533,000	7,066,135
Unrealized gains	312,014	3,220,576
Reclassifications and transfers out of Level 3	<u>(7,361,441)</u>	<u>(10,761,371)</u>
Balance at end of year	<u>\$ 4,282,280</u>	<u>10,798,707</u>

Investments with a fair value of \$5,896,468 and \$4,592,071 and cash equivalents of \$217,375 and \$286,634 at December 31, 2010 and 2009, respectively, were held in investment accounts relating to charitable gift annuities, in compliance, with the insurance laws of various states. The Society maintains separate and district reserve funds adequate to meet the future payments of all outstanding charitable gift annuities administered by the Society.

Certain information regarding the liquidity and redemption features of the Society's alternative investments (measured at NAV) is as follows:

	<u>2010</u>			
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Equity long (a)	\$ 8,074,942	—	Monthly	30 days
Event driven (b)	3,750,142	—	Annual	95 days
Distressed debt (c)	5,276,152	—	Quarterly	90 days
Funds of funds (d)	4,983,587	—	Annual	60 days
Private equity (e)	<u>4,282,280</u>	<u>2,142,500</u>	None	N/A
	<u>\$ 26,367,103</u>	<u>2,142,500</u>		

- (a) This category includes investments in a limited partnership that invests primarily in international equity securities.
- (b) This category includes investments in a hedge fund that employs event driven, distressed, and multistrategy arbitrage investment strategies to invest in a wide variety of securities and financial instruments traded in the United States and foreign markets.
- (c) This category includes investments in a hedge fund that invests indirectly in a diversified portfolio focused on the securities of distressed companies, special situations, and related capital structure opportunities.
- (d) This category includes investments in a fund that invests in offshore and advisory accounts that are managed outside of the United States, and domestically managed hedge funds, which are available for subscription by tax-exempt organizations.

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- (e) This category includes several private equity funds that invest in privately held corporations and domestic and international venture capital and private funds. Certain of these investments can never be redeemed, and in these instances, distributions are received through the liquidation of the underlying assets of the fund.

***Investment Return***

Components of investment return representing total return on investments and interest-bearing cash and cash equivalents for the years ended December 31, 2010 and 2009 follow:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 1,942,800	1,599,730
Realized gains (losses), net	1,462,861	(3,057,025)
Investment expenses	<u>(497,003)</u>	<u>(293,959)</u>
Realized investment return	2,908,658	(1,751,254)
Unrealized appreciation	<u>8,096,157</u>	<u>18,304,500</u>
Total investment return	<u>\$ 11,004,815</u>	<u>16,553,246</u>

**(4) Land, Building, and Equipment, Net**

Land, building, and equipment as of December 31, 2010 and 2009 consisted of the following:

	<u>Estimated useful lives</u>	<u>2010</u>	<u>2009</u>
Land	—	\$ 4,440,000	4,440,000
Building	20 – 40 years	14,761,877	14,761,877
Building improvements	10 – 25 years	11,850,426	11,716,890
Furniture, fixtures, and equipment	3 – 10 years	10,312,304	6,911,724
Transportation equipment	4 – 6 years	3,440,076	2,554,063
Construction in progress		<u>23,100</u>	<u>131,923</u>
Total cost		44,827,783	40,516,477
Accumulated depreciation and amortization		<u>(16,953,831)</u>	<u>(14,281,244)</u>
Net book value		<u>\$ 27,873,952</u>	<u>26,235,233</u>

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The Society owns a building and land adjoining its headquarters facility in New York City, which is occupied by a commercial tenant under a ten-year lease (with a five-year renewal option) and commenced in September 2006. Rental payments increase 3% each year plus payment of property taxes, utilities, and normal maintenance. As of December 31, 2010, minimum, future rental income under this lease is as follows:

2011	\$	285,144
2012		293,698
2013		302,509
2014		311,585
2015		320,932
Thereafter		<u>180,630</u>
	\$	<u><u>1,694,498</u></u>

Total rental income recognized by the Society in 2010 and 2009 was \$277,595 and \$284,164, respectively, which was recognized on a straight-line basis over the term of the lease, and is included in other revenues in the accompanying statements of activities. Depreciation expense of \$85,640 and \$84,950, respectively, related to the leased premises was netted against rental income.

**(5) Beneficial Interests in Trusts Held by Others**

Included as beneficial interests in trusts held by others in the accompanying balance sheets are remainder interests in several irrevocable trusts. The present value of the Society's share of future interests in charitable remainder trusts amounted to approximately \$3,386,000 and \$4,651,000 at December 31, 2010 and 2009, respectively, and has been included in temporarily restricted net assets and permanently restricted net assets in accordance with terms of the trusts. The present values of the trusts are calculated using discount rates ranging from 4.0% to 10.6% at December 31, 2010 and 2009. Beneficial interests in perpetual third-party trusts of approximately \$15,594,000 and \$14,848,000, valued at the Society's share of the fair value of the underlying trust assets, are included in permanently restricted net assets at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, the Society's beneficial interests in trusts held by third-party trustees were classified as Level 3 instruments within the fair value hierarchy.

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The following table summarizes the changes in the Society's Level 3 beneficial interests in trusts held by third-party trustees for the years ended December 31, 2010 and 2009:

	<b>Charitable remainder trusts</b>	<b>Perpetual trusts</b>	<b>Total</b>
Balance at December 31, 2008	\$ 3,953,986	13,159,495	17,113,481
Contributions, net	529,128	—	529,128
Unrealized gains	168,095	1,688,054	1,856,149
Balance at December 31, 2009	4,651,209	14,847,549	19,498,758
Terminations, net	(1,264,918)	—	(1,264,918)
Unrealized gains	—	746,723	746,723
Balance at December 31, 2010	<u>\$ 3,386,291</u>	<u>15,594,272</u>	<u>18,980,563</u>

**(6) Pension Plan**

The Society has a defined benefit pension plan that was frozen effective June 30, 2006. All participants will receive benefits accrued through that date. Benefits under the plan were generally based on years of service and average compensation during the highest five years of employment. Annual contributions are determined by the Society based upon calculations performed by the plan's actuary. No projected contributions are expected for 2011.

The actuarial present value of benefit obligation recognized in the accompanying balance sheets at December 31 are as follows:

	<b>2010</b>	<b>2009</b>
Projected benefit obligation, beginning of year	\$ 14,153,642	13,424,761
Interest cost	787,884	792,319
Actuarial loss (gain)	295,421	(141,710)
Assumption change	901,513	820,782
Benefits paid	(1,089,768)	(742,510)
Projected benefit obligation, end of year	<u>\$ 15,048,692</u>	<u>14,153,642</u>
Fair value of plan assets, beginning of year	\$ 11,010,636	9,410,036
Return on plan assets	920,411	1,843,110
Employer contributions	321,084	500,000
Benefits paid	(1,089,768)	(742,510)
Fair value of plan assets, end of year	11,162,363	11,010,636
Funded status of plan, end of year	<u>(3,886,329)</u>	<u>(3,143,006)</u>
Accumulated benefit obligation	<u>\$ 15,048,692</u>	<u>14,153,642</u>

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	2010	2009
Amounts included in the balance sheets:		
Unfunded pension obligation	\$ (3,886,329)	(3,143,006)
Net accumulated actuarial loss within unrestricted net assets	5,194,840	4,279,562

Components of net periodic pension cost in the statements of activities consist of the following:

	2010	2009
Interest cost	\$ 787,884	792,319
Expected return on plan assets	(838,505)	(708,562)
Actuarial loss	199,750	221,658
Net periodic pension cost	\$ 149,129	305,415

The weighted average rates used to determine net periodic pension cost and year-end benefit obligation for the years ended December 31, 2010 and 2009 were:

	2010	2009
Discount rate – benefit obligation	5.10%	5.70%
Discount rate – net periodic benefit cost	5.70	6.30
Expected long-term rate of return on plan assets	8.00	8.00

Other changes in plan assets and benefit obligation recognized in unrestricted net assets were as follows:

	2010	2009
Net actuarial (loss) gain arising during measurement period	\$ (1,115,028)	455,476
Amortization of net actuarial gain	199,750	221,658
	\$ (915,278)	677,134

The net accumulated actuarial loss within unrestricted net assets expected to be recognized in net periodic benefit cost during 2011 is \$246,000.

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The Finance Committee of the Board of Directors determines the allocation of plan assets and the external money managers based on recommendations of an independent investment advisor. The investment strategy for pension assets has a long-term horizon, with a preference for lower volatility, in keeping with the long-term nature of the benefit liabilities. The following table categorizes the inputs used to report the fair value of the plan's investments within the fair value hierarchy as of December 31, 2010 and 2009:

	<b>2010</b>		<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	
Equity – domestic common stock:			
Small cap equity	\$ 1,511,213	—	1,511,213
Large cap equity	3,716,420	—	3,716,420
Fixed income securities:			
Domestic corporate bonds	1,038,064	—	1,038,064
U.S. government bonds	—	538,323	538,323
Mutual funds:			
International equity	2,252,789	—	2,252,789
Global asset allocation	1,878,022	—	1,878,022
Cash and cash equivalents	227,532	—	227,532
	<u>\$ 10,624,040</u>	<u>538,323</u>	<u>11,162,363</u>
	<b>2009</b>		<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	
Equity – domestic common stock:			
Small cap equity	\$ 2,027,331	—	2,027,331
Large cap equity	3,508,813	—	3,508,813
Fixed income securities:			
Domestic corporate bonds	1,036,011	—	1,036,011
U.S. government bonds	—	546,862	546,862
Mutual funds:			
International equity	2,027,331	—	2,027,331
Global asset allocation	1,622,594	—	1,622,594
Cash and cash equivalents	241,694	—	241,694
	<u>\$ 10,463,774</u>	<u>546,862</u>	<u>11,010,636</u>

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The plan's weighted average asset allocation at December 31, 2010 and 2009, by asset category, follows:

	2010	2009
Equities	83.9%	83.4%
Fixed income	14.1	14.4
Cash and cash equivalents	2.0	2.2
	100.0%	100.0%

Plan benefits are expected to be paid as follows:

2011	\$	776,000
2012		747,000
2013		906,000
2014		877,000
2015		915,000
2016 – 2020		5,868,000

The Society also sponsors a 401(k) defined contribution retirement plan. Substantially all full-time employees over age 21 are eligible to participate. The Society matches 100% of pretax employee contributions up to 4% of eligible compensation in each pay period. Employee and matching employer contributions are immediately 100% vested. Additional employer contributions are also made as a percentage of compensation in each pay period. These additional contributions are fully vested for employees who have attained at least three years of eligible service. Employer contributions, representing matching employee contributions plus additional employer contributions, totaled \$2,450,325 and \$2,180,547 in 2010 and 2009, respectively.

**(7) Commitments and Contingencies**

In June 2009, the Society entered into a 5-year lease for additional office space in Manhattan. The aggregate commitment under these leases will be charged to expense on a straight-line basis over the terms of respective leases. The Society's aggregate annual minimum rental obligations at December 31, 2010, for facilities under operating leases expiring through 2023, were:

2011	\$	2,099,522
2012		2,033,582
2013		2,174,719
2014		1,961,920
2015		1,820,331
Thereafter		15,002,759
	\$	25,092,833

Total rental expense was \$2,329,124 and \$2,244,046 for 2010 and 2009, respectively.

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The Society, along with at least three other entities, is party to pending civil litigation. The ultimate potential loss cannot be reasonably estimated at this time in part because of the other parties involved. Nevertheless, management does not expect the outcome of this matter to have a material effect on the financial position, changes in net assets, and cash flows of the Society, beyond the estimated amount accrued.

In addition, the Society is a defendant in several other lawsuits arising in the normal course of operations. While outside counsel cannot predict the outcome of such litigation, management does not expect the outcome to have a material effect on the financial position, changes in net assets, and cash flows of the Society.

**(8) Allocation of Joint Costs**

Direct appeal program joint costs incurred in connection with mailing educational and informational materials are allocated to program and supporting services on the basis of the content of the respective materials. For the years ended December 31, 2010 and 2009, these costs were allocated as follows:

	<u>2010</u>	<u>2009</u>
Anti-cruelty programs	\$ 551,417	448,650
Communications	19,371,307	15,661,971
Membership development and fundraising	18,436,542	14,927,792
Management and general	24,468	20,025
	<u>\$ 38,383,734</u>	<u>31,058,438</u>

**(9) Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Animal health services	\$ 25,766,197	25,845,587
Anti-cruelty programs	407,105	325,000
Grants and sponsorships	1,886,177	2,062,684
Restricted for use in future periods	9,140,259	9,599,998
Other	50,061	10,100
	<u>\$ 37,249,799</u>	<u>37,843,369</u>

**(10) Endowment**

The ASPCA's endowment includes both donor-restricted endowment funds and funds designated by the trustees to function as endowments. The ASPCA's donor-restricted endowment funds have historically been subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). On

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September 17, 2010, the State of New York enacted the *New York Prudent Management of Institutional Funds Act* (NYPMIFA), the provisions of which apply to funds existing on or established after that date.

Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds*, provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA. The Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by NYPMIFA.

At December 31, 2010 and 2009, permanently restricted net assets of \$22,602,913 and \$21,703,190 consisted of donor-restricted endowment funds of \$7,008,641 and \$6,855,641 and beneficial interests in perpetual trusts totaling \$15,594,272 and \$14,847,549, respectively. Permanently restricted net assets are restricted to investment in perpetuity, with investment return available to support current operations.

The following summarizes the Society's endowment net asset composition as of December 31, 2010 and 2009:

<b>Endowment composition by net asset category</b>	<b>2010</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	550,241	7,008,641	7,558,882
Board-designated endowment funds	41,082,520	—	—	41,082,520
Total endowment funds	\$ 41,082,520	550,241	7,008,641	48,641,402
<b>Changes in endowment net assets</b>				
Endowment net assets, beginning of year	\$ 28,700,000	—	6,855,641	35,555,641
Contributions and bequests	10,181,557	—	153,000	10,334,557
Investment return	2,200,963	550,241	—	2,751,204
Endowment net assets, end of year	\$ 41,082,520	550,241	7,008,641	48,641,402

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<b>Endowment composition by net asset category</b>	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ —	—	6,855,641	6,855,641
Board-designated endowment funds	28,700,000	—	—	28,700,000
Total endowment funds	\$ 28,700,000	—	6,855,641	35,555,641
<b>Changes in endowment net assets</b>				
Endowment net assets, beginning of year	\$ —	—	5,418,864	5,418,864
Contributions and bequests	—	—	1,350,587	1,350,587
Establishment of board-designated endowment funds	28,700,000	—	—	28,700,000
Investment return:				
Investment income	252,576	—	86,190	338,766
Appropriation of endowment net assets for expenditure	(252,576)	—	—	(252,576)
Endowment net assets, end of year	\$ 28,700,000	—	6,855,641	35,555,641

**(11) Subsequent Events**

The Society evaluated its December 31, 2010 financial statements for subsequent events through September 14, 2011, the date the financial statements were available to be issued. The Society is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

