

**Financial Statements** 

December 31, 2011 and 2010

(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 sheets of the American Society for the Prevention of Cruelty to Animals (the Society) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



July 17, 2012

### **Balance Sheets**

December 31, 2011 and 2010

Assets	<u>-</u>	2011	2010
Cash and cash equivalents Prepaid expenses and other assets Bequests and contributions receivable Sponsorships and other receivables, net of allowance of	\$	17,855,957 2,401,034 7,917,660	27,869,029 3,082,249 11,655,029
\$90,000 in 2011 and \$37,000 in 2010 Investments (note 3) Beneficial interest in trusts held by others (note 5) Land, building, and equipment, net (note 4)		6,259,520 133,400,497 17,247,911 28,623,533	2,903,214 116,909,083 18,980,563 28,164,945
Total assets	\$	213,706,112	209,564,112
Liabilities and Net Assets	=		
Liabilities: Accounts payable and accrued expenses Grants payable Deferred income Deferred rent (note 7) Annuity obligations Unfunded pension obligation (note 6)  Total liabilities	\$	12,803,824 5,534,457 975,511 1,796,405 3,808,211 5,876,125	11,384,828 847,480 579,229 1,498,643 3,343,201 3,886,329 21,539,710
Commitments and contingencies (note 7)	-	30,794,333	21,339,710
Net assets (notes 9 and 10): Unrestricted Temporarily restricted Permanently restricted	<u>-</u>	126,356,278 34,666,749 21,888,552	128,171,690 37,249,799 22,602,913
Total net assets	-	182,911,579	188,024,402
Total liabilities and net assets	\$	213,706,112	209,564,112

Statement of Activities

Year ended December 31, 2011

	_	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating support and revenues:					
Contributions, grants, and memberships	\$	103,828,748	4,312,287	_	108,141,035
Federated campaigns	_	3,114,283		_	3,114,283
Bequests and trust income		5,611,744	6,051,120	_	11,662,864
Animal health services fees		14,900,407	· · · —		14,900,407
Royalties and licenses		3,783,708	_	_	3,783,708
Special events, net of expenses of \$1,369,640		564,691	_	_	564,691
Other revenues (note 4) Investment income designated for operations		958,002	_	_	958,002
(note 3)		4,600,000	_	_	4,600,000
Net assets released from restrictions	-	13,075,689	(13,075,689)		
Total operating support and		150 427 272	(2.712.292)		147 724 000
revenues	-	150,437,272	(2,712,282)		147,724,990
Operating expenses: Program expenses (note 8):					
Animal health services		28,910,948	_	_	28,910,948
Community outreach		16,584,978	_	_	16,584,978
Anticruelty programs		15,433,183	_	_	15,433,183
Grants and sponsorships		15,847,173		_	15,847,173
Communications	_	31,674,045			31,674,045
Total program expenses		108,450,327			108,450,327
Supporting expenses:  Membership development and fund-raising Management and general		29,422,049 7,047,900	_	_	29,422,049 7,047,900
Total supporting expenses	-	36,469,949			36,469,949
Total operating expenses	-	144,920,276			144,920,276
	-	144,720,270			144,720,270
Change in net assets from operating activities		5,516,996	(2,712,282)	_	2,804,714
Nonoperating activities:  Bequests and trust income restricted for					
endowment			_	6,459	6,459
Investment return (note 3)		(4,840,354)	129,232	_	(4,711,122)
Unrealized loss on beneficial interests in perpetual trusts held by others (note 5)		_	_	(720,820)	(720,820)
Pension-related charges other than net periodic pension cost (note 6)		(2,492,054)	_	_	(2,492,054)
Change in net assets	-	(1,815,412)	(2,583,050)	(714,361)	(5,112,823)
Net assets at beginning of year		128,171,690	37,249,799	22,602,913	188,024,402
Net assets at end of year	\$	126,356,278	34,666,749	21,888,552	182,911,579

Statement of Activities

Year ended December 31, 2010

	_	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating support and revenues: Contributions, grants, and memberships	\$	95,959,752	1 420 201		97,379,953
Federated campaigns	Ф	2,796,948	1,420,201		2,796,948
Bequests and trust income		4,100,784	7,429,851	_	11,530,635
Animal health services fees Royalties and licenses		13,500,750	_	_	13,500,750
Special events, net of expenses of \$527,070		2,808,986 436,474	329,000		2,808,986 765,474
Other revenues (note 4)		1,450,274	<u></u>	_	1,450,274
Net assets released from restrictions	_	10,322,863	(10,322,863)		
Total operating support and					
revenues	_	131,376,831	(1,143,811)		130,233,020
Operating expenses: Program expenses (note 8):					
Animal health services		26,675,363	_	_	26,675,363
Community outreach		15,136,052	_	_	15,136,052
Anticruelty programs		10,787,891	_	_	10,787,891
Grants and sponsorships Communications		7,316,913 28,941,215	_		7,316,913 28,941,215
	-				88,857,434
Total program expenses	-	88,857,434			00,037,434
Supporting expenses:  Membership development and fund-raising Management and general		25,777,210 5,221,402	_	_	25,777,210 5,221,402
Total supporting expenses	-	30,998,612			30,998,612
** * *	-	•			
Total operating expenses	-	119,856,046			119,856,046
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 perpetual 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		21,060,081	(593,570)	899,723	21,366,234
Net assets at beginning of year	_	107,111,609	37,843,369	21,703,190	166,658,168
Net assets at end of year	\$	128,171,690	37,249,799	22,602,913	188,024,402

Statement of Functional Expenses

Year ended December 31, 2011

		Program expenses						Supporting expenses			
		Animal health services	Community outreach	Anticruelty Programs	Grants and sponsorships	Communications	Total program expenses	Membership development and fund-raising	Management and general	Total supporting expenses	Total expenses
Compensation	\$	15,902,808	8,313,296	5,559,022	379,464	2,906,438	33,061,028	3,756,385	2,871,045	6,627,430	39,688,458
Employee benefits		4,869,864	2,557,713	1,500,207	90,947	778,960	9,797,691	983,127	761,941	1,745,068	11,542,759
Supplies		469,145	913,136	474,785	5,971	265,192	2,128,229	102,439	62,911	165,350	2,293,579
Telephone		340,954	149,722	133,712	6,626	63,130	694,144	62,390	54,649	117,039	811,183
Postage and shipping		33,361	36,430	226,844	976	4,361,941	4,659,552	3,847,844	103,260	3,951,104	8,610,656
Rent		190,040	251,674	456,903	43,447	501,545	1,443,609	623,277	478,975	1,102,252	2,545,861
Repairs and maintenance		281,421	289,763	26,937	1,862	16,285	616,268	19,934	25,274	45,208	661,476
Data processing		356,679	254,921	238,181	39,541	3,782,442	4,671,764	4,289,305	292,141	4,581,446	9,253,210
Printing		23,208	11,654	101,845	106	2,824,844	2,961,657	2,842,798	36,436	2,879,234	5,840,891
Auto expenses		261,873	16,135	159,728	38	356	438,130	438	301	739	438,869
Travel, conferences, and seminars		564,960	1,200,148	2,121,665	34,572	173,084	4,094,429	300,931	165,332	466,263	4,560,692
Insurance		140,814	71,060	185,238	2,081	28,595	427,788	28,302	43,559	71,861	499,649
Utilities		139,556	220,531	67,938	5,122	55,437	488,584	68,678	36,656	105,334	593,918
Veterinary and medical services		2,997,732	179,513	804,409	_	_	3,981,654	_	_	_	3,981,654
Advertising and media information		328,370	206,127	756,593	_	10,687,143	11,978,233	8,645,039	127,255	8,772,294	20,750,527
Professional services		822,280	975,614	2,132,206	99,972	3,935,623	7,965,695	3,610,476	1,582,918	5,193,394	13,159,089
Grants		_	_	_	15,050,627	_	15,050,627	_	_	_	15,050,627
Other		406,110	109,307	116,559	23,106	30,332	685,414	100,769	204,288	305,057	990,471
Total expenses before depreciation and amortization		28,129,175	15,756,744	15,062,772	15,784,458	30,411,347	105,144,496	29,282,132	6,846,941	36,129,073	141,273,569
					, ,						
Depreciation and amortization	_	781,773	828,234	370,411	62,715	1,262,698	3,305,831	139,917	200,959	340,876	3,646,707
Total expenses	\$_	28,910,948	16,584,978	15,433,183	15,847,173	31,674,045	108,450,327	29,422,049	7,047,900	36,469,949	144,920,276

Statement of Functional Expenses Year ended December 31, 2010

	_	Program expenses							Supporting	g expenses	
	_	Animal health services	Community outreach	Anticruelty Programs	Grants and sponsorships	Communications	Total program expenses	Membership development and fund-raising	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
Total expenses before depreciation and amortization		25,939,667	14,342,638	10,486,614	7,284,318	28,258,340	86,311,577	25,641,180	5,064,192	30,705,372	117,016,949
Depreciation and amortization	_	735,696	793,414	301,277	32,595	682,875	2,545,857	136,030	157,210	293,240	2,839,097
Total expenses	\$	26,675,363	15,136,052	10,787,891	7,316,913	28,941,215	88,857,434	25,777,210	5,221,402	30,998,612	119,856,046

### Statements of Cash Flows

Years ended December 31, 2011 and 2010

	_	2011	2010
Cash flows from operating activities:			
Change in net assets	\$	(5,112,823)	21,366,234
Adjustments to reconcile change in net assets to net cash provided		, , , ,	, ,
by operating activities:			
Depreciation		3,732,347	2,924,737
Donated securities		(566,984)	(375,808)
Net investment losses (gains)		2,236,469	(9,559,018)
Unrealized losses (gains) on beneficial interests in			
trusts held by others		720,820	(746,723)
Contributions restricted for endowments		(6,459)	(153,000)
Changes in assets and liabilities:			
Decrease in prepaids and other assets		681,215	801,810
Decrease (increase) in bequests and contributions			
receivable		3,737,369	(931,443)
Increase in sponsorships and other receivables, net		(3,356,306)	(313,188)
Decrease in beneficial interests in charitable remainder		1 011 022	1.064.010
trusts held by others		1,011,832	1,264,918
Increase in accounts payable and accrued expenses		1,418,996	2,292,125
Increase in grants payable		4,686,977	140,128
Increase in other liabilities	_	3,148,850	872,220
Net cash provided by operating activities	_	12,332,303	17,582,992
Cash flows from investing activities:			
Additions to land, building, and equipment		(4,190,935)	(4,563,456)
Purchases of investments		(59,928,760)	(34,386,388)
Proceeds from sales of investments	_	41,767,861	17,990,775
Net cash used in investing activities	_	(22,351,834)	(20,959,069)
Cash flows from financing activity:			
Contributions restricted for endowments	_	6,459	153,000
Net change in cash and cash equivalents		(10,013,072)	(3,223,077)
Cash and cash equivalents, beginning of year	_	27,869,029	31,092,106
Cash and cash equivalents, end of year	\$	17,855,957	27,869,029

Notes to Financial Statements December 31, 2011 and 2010

### (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 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.

Notes to Financial Statements December 31, 2011 and 2010

#### (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.

Notes to Financial Statements December 31, 2011 and 2010

### (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 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 1.4% to 3.0% at December 31, 2011 and 1.8% to 3.4% at December 31, 2010.

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

The Society's investments in debt and equity securities are reported at fair values and are based upon quoted market prices. The alternative investments are reported at estimated fair values using the investee's NAV per share or its equivalent, as a practical expedient. These values are provided by the fund managers. The values are reviewed by the Society for reasonableness. Due to the inherent uncertainty of these estimates, these 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.

Notes to Financial Statements December 31, 2011 and 2010

### (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 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.

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

A substantial number of volunteers have donated significant amounts of time and services in the Society's program operations and in its fund-raising 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.

### (k) Grants Payable

Grants are recorded as an expense and a liability based on funds committed per the grant agreements once final approval by the grants department has occurred. No grant payments may be made prior to the final approval. Grants payable as of December 31, 2011 are scheduled to be paid in the following year.

Notes to Financial Statements December 31, 2011 and 2010

### (l) 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 are as follows:

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

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.

Anticruelty programs – includes humane law enforcement in New York as well as national, state, and local legislative initiatives, as well as animal behavior, 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 fund-raising* – involves the direction of the overall fund-raising 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.

### (m) 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.

Notes to Financial Statements December 31, 2011 and 2010

#### (n) 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 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.

### (o) 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 bequest and trust income restricted for endowment, changes in beneficial interests in perpetual 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. In addition, in 2011, the Society adopted a spending policy under which a predetermined amount of investment return is authorized to fund operations. The difference between the actual investment return and the amount authorized to fund operations is reported as nonoperating.

#### (p) 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 2011 or 2010.

### (q) Reclassifications

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

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Notes to Financial Statements December 31, 2011 and 2010

### (3) Investments

The following tables present the Society's fair value hierarchy for those investments measured at fair value on a recurring basis at December 31:

			201	1	
	_	Level 1	Level 2	Level 3	Total
Short-term investments	\$	6,867,395	_	_	6,867,395
Common stock:					
Large cap equity		15,616,834	_	_	15,616,834
Small and mid cap equity	_	11,012,237			11,012,237
	_	26,629,071			26,629,071
Fixed income securities:					
Domestic corporate bonds		924,915	_	_	924,915
U.S. government bonds		5,250,737	_	_	5,250,737
Municipal bonds	_	1,561,635			1,561,635
	_	7,737,287			7,737,287
Mutual funds:					
Total fixed income		9,669,232	_	_	9,669,232
Small and mid cap equity		6,264,606	_	_	6,264,606
Large cap equity		10,089,035	_	_	10,089,035
Other equity		557,634	_	_	557,634
International equity		13,284,115	_	_	13,284,115
Global asset allocation	_	26,578,895			26,578,895
	_	66,443,517			66,443,517
Alternative investments	_		18,746,729	6,976,498	25,723,227
	\$_	107,677,270	18,746,729	6,976,498	133,400,497

Notes to Financial Statements

December 31, 2011 and 2010

			201	.0	
	_	Level 1	Level 2	Level 3	Total
Short-term investments	\$	8,068,190	_	_	8,068,190
Common stock:					
Global equity		5,999,120	_	_	5,999,120
Large cap equity		15,103,806	_	_	15,103,806
Small cap equity	_	6,990,239			6,990,239
	_	28,093,165			28,093,165
Fixed income securities:					
Domestic corporate bonds		882,865	_	_	882,865
U.S. government bonds		2,630,014	_	_	2,630,014
Municipal bonds		906,346			906,346
	_	4,419,225			4,419,225
Mutual funds:					
Total fixed income		4,828,321	_	_	4,828,321
Small and mid cap equity		7,820,837	_	_	7,820,837
Large cap equity		11,913,562	_	_	11,913,562
Other equity		477,742	_	_	477,742
International equity		15,661,599	_	_	15,661,599
Global asset allocation		9,259,339			9,259,339
	_	49,961,400			49,961,400
Alternative investments	_		22,084,823	4,282,280	26,367,103
	\$	90.541.980	22.084.823	4.282.280	116.909.083

The following tables present the Society's activities for the years ended December 31, 2011 and 2010 for assets classified in Level 3:

	_]	Fund of funds	<b>Private equity</b>	Total
Beginning balance at January 1, 2011	\$	_	4,282,280	4,282,280
Acquisitions		1,517,260	700,000	2,217,260
Dispositions		(256,775)	(294,079)	(550,854)
Net appreciation		282,074	745,738	1,027,812
Ending balance at December 31, 2011	\$_	1,542,559	5,433,939	6,976,498

Notes to Financial Statements December 31, 2011 and 2010

	_]	Fund of funds	<b>Event driven</b>	<b>Private equity</b>	Total
Beginning balance at January 1, 2010	\$	4,696,530	2,664,911	3,437,266	10,798,707
Acquisitions		_	_	682,500	682,500
Dispositions		_	_	(149,500)	(149,500)
Transfers from Level 3 to Level 2		(4,696,530)	(2,664,911)	_	(7,361,441)
Net appreciation	_			312,014	312,014
Ending balance at December 31, 2010	\$_			4,282,280	4,282,280

Investments with a fair value of \$6,212,482 and \$5,896,468 and cash equivalents of \$401,246 and \$217,375 at December 31, 2011 and 2010, 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:

					2011	
	_	2011 Fair value	2010 Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity long (a)	\$	7,327,057	8,074,942	_	Monthly	30 days
Event driven (b)		_	3,750,142	_	Annual	95 days
Distressed debt (c)		6,520,743	5,276,152	_	Quarterly	90 days
Funds of funds (d)		4,898,929	4,983,587	_	Annual	60 days
Fund of funds – private equity (e)		1,542,559	_	2,500,937	None	N/A
Private equity (f)	_	5,433,939	4,282,280	1,229,519	None	N/A
	\$	25,723,227	26,367,103	3,730,456		

- (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.

Notes to Financial Statements December 31, 2011 and 2010

- (e) This category includes investments in a fund that invests in a diversified portfolio of interests in private investment funds, principally established global buyout, mezzanine and venture capital funds primarily through secondary market transactions.
- (f) 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, 2011 and 2010 are as follows:

		2011	2010
Interest and dividends Realized gains, net	\$	2,762,701 2,404,093	1,942,800 1,462,861
Investment expenses	_	(637,354)	(497,003)
Realized investment return		4,529,440	2,908,658
Unrealized (depreciation) appreciation	_	(4,640,562)	8,096,157
Total investment (loss) return	\$	(111,122)	11,004,815

For the year ended December 31, 2011, the ASPCA's board approved a spending rate on investments to be classified as operating support and revenues, of approximately 5% of the average historical investment balance, excluding certain restricted investment balances. These funds have been allocated to the operating budget. Actual results of the investments, net of this spending rate amount, are reflected as nonoperating gain/loss in the 2011 statement of activities. The board approved spending rate in 2011 was \$4,600,000.

Notes to Financial Statements December 31, 2011 and 2010

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

Land, building, and equipment as of December 31, 2011 and 2010 consisted of the following:

	Estimated useful lives		2011	2010
Land		\$	4,440,000	4,440,000
Building	20 - 40 years		14,761,877	14,761,877
Building improvements	10-25 years		12,157,228	11,850,426
Furniture, fixtures, and equipment	3 –10 years		11,796,233	10,312,304
Transportation equipment	4-6 years		3,730,239	3,440,076
Construction in progress		_	2,049,826	314,093
Total cost			48,935,403	45,118,776
Accumulated depreciation and amortization		_	(20,311,870)	(16,953,831)
Net book value		\$	28,623,533	28,164,945

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) that commenced in September 2006. Rental payments increase 3% each year plus payment of property taxes, utilities, and normal maintenance. As of December 31, 2011, minimum, future rental income under this lease is as follows:

2012	\$	302,509
2013		311,585
2014		320,932
2015	_	180,360
	\$	1,115,386

Total rental income recognized by the Society in 2011 and 2010 was \$280,592 and \$277,595, 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 for 2011 and 2010 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 \$2,374,000 and \$3,386,000 at December 31, 2011 and 2010, respectively, and has been included in temporarily restricted net assets. The present values of the trusts are calculated using discount rates ranging from 4.0% to 10.6% at December 31, 2011 and 2010. Beneficial interests in perpetual third-party trusts of approximately \$14,873,000 and \$15,594,000, valued

Notes to Financial Statements December 31, 2011 and 2010

at the Society's share of the fair value of the underlying trust assets, are included in permanently restricted net assets at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, the Society's beneficial interests in trusts held by third-party trustees were classified as Level 3 instruments within the fair value hierarchy.

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, 2011 and 2010:

	_	Charitable remainder trusts	Perpetual trusts	Total
Balance at December 31, 2009 Additions Terminations Unrealized gains (losses)	\$	4,651,209 3,453,596 (4,602,269) (116,245)	14,847,549 — — — — — — 746,723	19,498,758 3,453,596 (4,602,269) 630,478
Balance at December 31, 2010		3,386,291	15,594,272	18,980,563
Additions Terminations Unrealized losses	_	665,655 (1,634,567) (42,920)		665,655 (1,634,567) (763,740)
Balance at December 31, 2011	\$_	2,374,459	14,873,452	17,247,911

### (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 are 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.

Notes to Financial Statements December 31, 2011 and 2010

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

	_	2011	2010
Projected benefit obligation, beginning of year Interest cost Actuarial loss Assumption change Benefits paid	\$	15,048,692 753,295 263,713 1,317,628 (882,941)	14,153,642 787,884 295,421 901,513 (1,089,768)
Projected benefit obligation, end of year	\$	16,500,387	15,048,692
Fair value of plan assets, beginning of year Return on plan assets Employer contributions Benefits paid	\$	11,162,363 (310,324) 655,164 (882,941)	11,010,636 920,411 321,084 (1,089,768)
Fair value of plan assets, end of year		10,624,262	11,162,363
Funded status of plan, end of year		(5,876,125)	(3,886,329)
Accumulated benefit obligation	\$ _	16,500,387	15,048,692
	_	2011	2010
Amounts included in the balance sheets: Unfunded pension obligation Net accumulated actuarial loss within unrestricted net assets	\$	5,876,125 7,686,894	3,886,329 5,194,840

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

	_	2011	2010
Interest cost Expected return on plan assets Actuarial loss	\$	753,295 (872,552) 272,163	787,884 (838,505) 199,750
Actualiai ioss	_	272,103	199,730
Net periodic pension cost	\$	152,906	149,129

Notes to Financial Statements December 31, 2011 and 2010

The weighted average rates used to determine net periodic pension cost and year-end benefit obligation for the years ended December 31, 2011 and 2010 were:

	 2011	2010
Discount rate – benefit obligation	\$ 4.35%	5.10%
Discount rate – net periodic benefit cost	5.10	5.70
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:

	_	2011	2010
Net actuarial loss arising during measurement period Amortization of net actuarial gain	\$	(2,764,217) 272,163	(1,115,028) 199,750
	\$	(2,492,054)	(915,278)

The net accumulated actuarial loss within unrestricted net assets expected to be recognized in net periodic benefit cost during 2012 is \$416,000.

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 tables categorize the inputs used to report the fair value of the plan's investments within the fair value hierarchy as of December 31, 2011 and 2010:

			2011	
	_	Level 1	Level 2	Total
Equity – domestic common stock:				
Small cap equity	\$	1,482,138	_	1,482,138
Large cap equity		2,274,332	_	2,274,332
Fixed income securities:				
Domestic corporate bonds		1,343,078	_	1,343,078
U.S. government bonds		812,620	_	812,620
Mutual funds:				
International equity		1,720,302	_	1,720,302
Global asset allocation		2,893,794		2,893,794
Cash and cash equivalents	_	97,998		97,998
	\$	10,624,262		10,624,262

Notes to Financial Statements December 31, 2011 and 2010

		2010		
		Level 1	Level 2	Total
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
	\$_	10,624,040	538,323	11,162,363

The plan's weighted average asset allocation at December 31, 2011 and 2010, by asset category, is as follows:

	 2011	2010
Equities	\$ 78.9%	83.9%
Fixed income	20.3	14.1
Cash and cash equivalents	 0.8	2.0
	\$ 100.0%	100.0%

Plan benefits are expected to be paid as follows:

2012	\$ 765,000
2013	931,000
2014	898,000
2015	913,000
2016	1,020,000
2017 - 2021	6,460,000

Projected contributions for 2012 are estimated to be \$1,506,000.

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 \$2,568,000 and \$2,450,000 in 2011 and 2010, respectively.

Notes to Financial Statements December 31, 2011 and 2010

### (7) Commitments and Contingencies

In October 2011, the Society acquired additional office space and renegotiated its current New York corporate office leases to enter into a new 15-year operating lease expiring December 2026. In October 2011, the Society entered into an operating lease agreement for office space located in Washington DC expiring December 2026. The Society also holds leases in Queens, New York and Urbana, Illinois. 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, 2011, for facilities under operating leases expiring through 2026, are:

2012	\$ 2,98	4,815
2013	3,08	3,886
2014	2,85	8,210
2015	2,63	2,579
2016	2,55	1,820
Thereafter	29,77	0,924
	\$ 43,88	2,234

In December 2011, the Society entered into fixed-price construction contract for the renovation of its  $92^{nd}$  Street property. Approximately \$14,000,000 has been committed to the renovation of the  $92^{nd}$  Street property.

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, 2011 and 2010, these costs were allocated as follows:

	_	2011	2010
Program	\$	21,868,478	19,922,724
Membership development and fundraising		22,505,735	18,436,542
Management and general		311,109	24,468
	\$	44,685,322	38,383,734

Notes to Financial Statements December 31, 2011 and 2010

### (9) Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2011 and 2010:

	_	2011	2010
Animal health services	\$	25,800,250	25,766,197
Anticruelty programs		191,000	407,105
Grants and sponsorships		833,164	1,886,177
Restricted for use in future periods		7,328,874	9,140,259
Other	_	513,461	50,061
	\$ _	34,666,749	37,249,799

#### (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 are subject to the provisions of the *New York Prudent Management of Institutional Funds Act* (NYPMIFA).

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, 2011 and 2010, permanently restricted net assets of \$21,888,552 and \$22,602,913 consisted of donor-restricted endowment funds of \$7,015,100 and \$7,008,641 and beneficial interests in perpetual trusts totaling \$14,873,452 and \$15,594,272, respectively. Permanently restricted net assets are restricted to investment in perpetuity, with investment return available to support current operations.

Notes to Financial Statements December 31, 2011 and 2010

The following summarizes the Society's endowment net asset composition as of December 31, 2011 and 2010:

		2011				
Endowment composition by net asset category		Unrestricted	Temporarily restricted	Permanently restricted	Total	
Donor-restricted endowment funds Board-designated endowment funds	\$	39,262,859	331,124	7,015,100	7,346,224 39,262,859	
Total endowment funds	\$	39,262,859	331,124	7,015,100	46,609,083	
Changes in endowment net assets	_					
Endowment net assets, beginning of year Contributions and bequests Investment return and other Appropriation of endowment	\$	41,082,520 — 230,339	550,241 — 129,232	7,008,641 6,459 —	48,641,402 6,459 359,571	
assets for expenditures and other costs		(2,050,000)	(348,349)		(2,398,349)	
Endowment net assets, end of year	\$	39,262,859	331,124	7,015,100	46,609,083	
		2010				
Endowment composition by net asset category		Unrestricted	Temporarily restricted	Permanently restricted	Total	
Donor-restricted endowment funds Board-designated endowment funds	\$	41,082,520	550,241	7,008,641	7,558,882 41,082,520	
Total endowment funds	\$	41,082,520	550,241	7,008,641	48,641,402	
Changes in endowment net assets						
Endowment net assets, beginning of year Contributions and bequests Investment return	\$	28,700,000 10,181,557 2,200,963	550,241	6,855,641 153,000 —	35,555,641 10,334,557 2,751,204	
Endowment net assets, end of year	\$	41,082,520	550,241	7,008,641	48,641,402	

Notes to Financial Statements December 31, 2011 and 2010

### (11) Subsequent Events

The Society evaluated its December 31, 2011 financial statements for subsequent events through July 17, 2012, 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.