

**The American Society for the Prevention
of Cruelty to Animals**

Consolidated Financial Statements

December 31, 2017 and 2016



BAKER TILLY

Candor. Insight. Results.

The American Society for the Prevention of Cruelty to Animals

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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The American Society for the Prevention of Cruelty to Animals (the "ASPCA"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the ASPCA as of December 31, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
June 15, 2018

The American Society for the Prevention of Cruelty to Animals

Consolidated Statements of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,765,727	\$ 16,665,186
Bequests and contributions receivable, net of discount of \$4,000 in 2017 and \$13,000 in 2016	11,143,059	13,363,334
Other receivables, net of allowance of \$190,000 in 2017 and \$280,000 in 2016	6,024,423	6,544,211
Prepaid expenses and other assets	1,008,282	2,028,296
Investments	193,970,001	155,580,741
Beneficial interest in trusts held by others	21,127,139	19,077,718
Land, buildings and equipment, net	<u>54,035,422</u>	<u>49,525,297</u>
Total assets	<u>\$ 308,074,053</u>	<u>\$ 262,784,783</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 14,860,603	\$ 12,074,936
Grants payable	1,952,817	2,115,468
Unfunded pension obligation	5,921,977	5,639,665
Deferred rent and other	4,433,510	4,834,717
Annuity obligations	<u>7,280,697</u>	<u>6,904,508</u>
Total liabilities	<u>34,449,604</u>	<u>31,569,294</u>
Commitments and Contingencies		
Net Assets		
Unrestricted:		
Operating	146,130,117	113,421,837
Board designated	55,402,298	48,112,075
Temporarily restricted	44,461,322	44,634,468
Permanently restricted	<u>27,630,712</u>	<u>25,047,109</u>
Total net assets	<u>273,624,449</u>	<u>231,215,489</u>
Total liabilities and net assets	<u>\$ 308,074,053</u>	<u>\$ 262,784,783</u>

See notes to consolidated financial statements

The American Society for the Prevention of Cruelty to Animals

Consolidated Statement of Activities and Change in Net Assets

Year Ended December 31, 2017

(With Summarized Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	2016
Operating Support and Revenues					
Contributions, memberships, grants and sponsorships	\$ 162,586,871	\$ 14,592,420	\$ -	\$ 177,179,291	\$ 154,218,748
Animal health services fees	13,692,330	-	-	13,692,330	13,852,195
Bequests and trusts	27,997,524	6,933,588	-	34,931,112	38,617,798
Royalties, licenses and other	9,089,091	1,580,239	-	10,669,330	6,883,001
Net assets released from restrictions	24,447,309	(24,447,309)	-	-	-
Total operating support and revenues	237,813,125	(1,341,062)	-	236,472,063	213,571,742
Operating Expenses					
Program expenses:					
Animal health services	49,831,246	-	-	49,831,246	45,873,282
Public education and communications	42,642,609	-	-	42,642,609	41,871,379
Anticruelty programs	32,324,373	-	-	32,324,373	28,136,347
Community outreach	28,807,660	-	-	28,807,660	26,824,727
Grants	12,951,244	-	-	12,951,244	15,090,910
Total program expenses	166,557,132	-	-	166,557,132	157,796,645
Supporting expenses:					
Membership development and fundraising	45,067,962	-	-	45,067,962	40,264,255
Management and general	9,311,535	-	-	9,311,535	9,999,907
Total supporting expenses	54,379,497	-	-	54,379,497	50,264,162
Total operating expenses	220,936,629	-	-	220,936,629	208,060,807
Change in net assets from operating activities	16,876,496	(1,341,062)	-	15,535,434	5,510,935
Nonoperating Activities					
Net investment return	22,620,905	1,046,067	-	23,666,972	12,166,168
Net appreciation on beneficial interest in trusts held by others	-	121,849	1,982,048	2,103,897	144,419
Contributions related to endowment	-	-	601,555	601,555	-
Pension-related adjustments other than net periodic pension cost	501,102	-	-	501,102	(660,968)
Change in net assets	39,998,503	(173,146)	2,583,603	42,408,960	17,160,554
Net Assets, Beginning of Year	161,533,912	44,634,468	25,047,109	231,215,489	214,054,935
Net Assets, End of Year	<u>\$ 201,532,415</u>	<u>\$ 44,461,322</u>	<u>\$ 27,630,712</u>	<u>\$ 273,624,449</u>	<u>\$ 231,215,489</u>

See notes to consolidated financial statements

The American Society for the Prevention of Cruelty to Animals

Consolidated Statement of Activities and Change in Net Assets

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
Operating Support and Revenues				
Contributions, memberships, grants and sponsorships	\$ 147,541,567	\$ 6,677,181	\$ -	\$ 154,218,748
Animal health services fees	13,852,195	-	-	13,852,195
Bequests and trusts	22,093,251	16,524,547	-	38,617,798
Royalties, licenses and other	6,021,447	861,554	-	6,883,001
Net assets released from restrictions	27,770,439	(27,770,439)	-	-
Total operating support and revenues	<u>217,278,899</u>	<u>(3,707,157)</u>	<u>-</u>	<u>213,571,742</u>
Operating Expenses				
Program expenses:				
Animal health services	45,873,282	-	-	45,873,282
Public education and communications	41,871,379	-	-	41,871,379
Anticruelty programs	28,136,347	-	-	28,136,347
Community outreach	26,824,727	-	-	26,824,727
Grants	15,090,910	-	-	15,090,910
Total program expenses	<u>157,796,645</u>	<u>-</u>	<u>-</u>	<u>157,796,645</u>
Supporting expenses:				
Membership development and fundraising	40,264,255	-	-	40,264,255
Management and general	9,999,907	-	-	9,999,907
Total supporting expenses	<u>50,264,162</u>	<u>-</u>	<u>-</u>	<u>50,264,162</u>
Total operating expenses	<u>208,060,807</u>	<u>-</u>	<u>-</u>	<u>208,060,807</u>
Change in net assets from operating activities	9,218,092	(3,707,157)	-	5,510,935
Nonoperating Activities				
Net investment return	11,537,153	629,015	-	12,166,168
Net (depreciation) appreciation on beneficial interest in trusts held by others	-	(9,275)	153,694	144,419
Pension-related adjustments other than net periodic pension cost	(660,968)	-	-	(660,968)
Change in net assets	20,094,277	(3,087,417)	153,694	17,160,554
Net Assets, Beginning of Year	<u>141,439,635</u>	<u>47,721,885</u>	<u>24,893,415</u>	<u>214,054,935</u>
Net Assets, End of Year	<u>\$ 161,533,912</u>	<u>\$ 44,634,468</u>	<u>\$ 25,047,109</u>	<u>\$ 231,215,489</u>

See notes to consolidated financial statements

The American Society for the Prevention of Cruelty to Animals

Consolidated Statement of Functional Expenses
 Year Ended December 31, 2017
 (With Summarized Comparative Totals for 2016)

	Program Expenses					Supporting Expenses					
	Animal Health Services	Public Education and Communications	Anticruelty Programs	Community Outreach	Grants	Total Program Expenses	Membership Development and Fundraising	Management and General	Total Supporting Expenses	Total Expenses 2017	Total Expenses 2016
Compensation	\$ 25,712,283	\$ 3,624,890	\$ 11,001,632	\$ 13,691,922	\$ 515,329	\$ 54,546,056	\$ 5,297,765	\$ 4,031,047	\$ 9,328,812	\$ 63,874,868	\$ 59,641,234
Employee benefits	10,054,132	1,034,417	3,303,704	4,668,185	150,506	19,210,944	1,668,664	1,144,580	2,813,244	22,024,188	20,132,853
Supplies	790,494	105,079	581,376	1,373,722	3,773	2,854,444	71,321	59,945	131,266	2,985,710	3,216,652
Telephone	618,107	42,878	265,187	246,408	7,117	1,179,697	50,718	140,118	190,836	1,370,533	1,277,848
Postage and shipping	50,774	5,337,605	99,963	26,348	373	5,515,063	4,760,053	23,378	4,783,431	10,298,494	9,319,848
Rent	1,000,825	590,967	1,474,222	310,270	74,567	3,450,851	647,845	649,615	1,297,460	4,748,311	4,449,346
Repairs and maintenance	595,903	46,169	151,806	554,094	5,995	1,353,967	51,026	118,636	169,662	1,523,629	1,587,430
Data processing	684,489	3,737,539	425,129	404,837	143,089	5,395,083	6,257,751	516,841	6,774,592	12,169,675	12,147,236
Printing	27,006	4,185,501	37,029	781	5	4,250,322	3,514,429	8,905	3,523,334	7,773,656	6,817,213
Auto expenses	215,218	58	264,882	247,198	9	727,365	68	714	782	728,147	572,213
Travel, conferences and seminars	695,271	141,890	4,025,761	1,658,642	22,075	6,543,639	219,874	109,187	329,061	6,872,700	6,665,779
Insurance	446,370	51,916	368,377	173,405	7,729	1,047,797	81,209	101,639	182,848	1,230,645	1,112,359
Utilities	291,008	51,096	213,211	306,448	6,533	868,296	56,223	90,570	146,793	1,015,089	942,751
Veterinary and medical services	5,156,067	30	3,611,481	926,141	4	9,693,723	259	37	296	9,694,019	9,038,472
Media buys, promotion and related costs	71,959	17,730,934	460,296	34,114	-	18,297,303	15,858,837	40,082	15,898,919	34,196,222	34,050,538
Professional services	1,422,138	5,280,097	5,248,149	2,378,114	134,442	14,462,940	5,907,852	1,396,813	7,304,665	21,767,605	16,261,090
Grants	-	-	-	-	11,840,490	11,840,490	-	-	-	11,840,490	14,144,477
Other	458,171	400,034	93,270	111,814	22,338	1,085,627	108,279	210,619	318,898	1,404,525	1,283,439
Total expenses before depreciation and amortization	48,290,215	42,361,100	31,625,475	27,112,443	12,934,374	162,323,607	44,552,173	8,642,726	53,194,899	215,518,506	202,660,778
Depreciation and amortization	1,541,031	281,509	698,898	1,695,217	16,870	4,233,525	515,789	668,809	1,184,598	5,418,123	5,400,029
Total expenses	\$ 49,831,246	\$ 42,642,609	\$ 32,324,373	\$ 28,807,660	\$ 12,951,244	\$ 166,557,132	\$ 45,067,962	\$ 9,311,535	\$ 54,379,497	\$ 220,936,629	\$ 208,060,807

See notes to consolidated financial statements

The American Society for the Prevention of Cruelty to Animals

Consolidated Statements of Functional Expenses

Year Ended December 31, 2016

	Program Expenses					Supporting Expenses				
	Animal Health Services	Public Education and Communications	Anticruelty Programs	Community Outreach	Grants	Total Program Expenses	Membership Development and Fundraising	Management and General	Total Supporting Expenses	Total Expenses
Compensation	\$ 24,067,719	\$ 3,487,223	\$ 9,133,099	\$ 13,021,972	\$ 450,845	\$ 50,160,858	\$ 5,098,547	\$ 4,381,829	\$ 9,480,376	\$ 59,641,234
Employee benefits	9,084,603	1,065,717	2,601,249	4,484,632	133,690	17,369,891	1,544,537	1,218,425	2,762,962	20,132,853
Supplies	714,994	104,094	472,867	1,737,652	2,290	3,031,897	125,877	58,878	184,755	3,216,652
Telephone	550,384	59,932	206,269	239,921	7,070	1,063,576	52,200	162,072	214,272	1,277,848
Postage and shipping	48,762	5,050,229	110,597	25,974	594	5,236,156	4,001,290	82,402	4,083,692	9,319,848
Rent	876,532	565,687	1,307,140	290,826	59,067	3,099,252	708,389	641,705	1,350,094	4,449,346
Repairs and maintenance	600,650	52,290	152,952	584,475	5,542	1,395,909	64,972	126,549	191,521	1,587,430
Data processing	532,696	3,963,653	294,125	386,540	84,414	5,261,428	6,310,953	574,855	6,885,808	12,147,236
Printing	16,401	3,901,722	32,013	3,129	6	3,953,271	2,808,214	55,728	2,863,942	6,817,213
Auto expenses	243,283	30	201,979	126,084	3	571,379	17	817	834	572,213
Travel, conferences and seminars	758,738	195,873	3,812,040	1,441,696	41,428	6,249,775	272,034	143,970	416,004	6,665,779
Insurance	396,267	48,786	327,516	153,978	6,233	932,780	77,184	102,395	179,579	1,112,359
Utilities	294,465	46,858	143,894	305,620	4,935	795,772	58,412	88,567	146,979	942,751
Veterinary and medical services	4,448,634	87	3,779,864	809,887	-	9,038,472	-	-	-	9,038,472
Media buys, promotion and related costs	117,294	18,845,342	288,279	49,053	-	19,299,968	14,468,587	281,983	14,750,570	34,050,538
Professional services	1,130,475	3,722,888	4,455,906	1,474,241	112,913	10,896,423	4,031,105	1,333,562	5,364,667	16,261,090
Grants	-	-	-	-	14,144,477	14,144,477	-	-	-	14,144,477
Other	437,655	467,609	77,963	86,331	22,893	1,092,451	102,017	88,971	190,988	1,283,439
Total expenses before depreciation and amortization	44,319,552	41,578,020	27,397,752	25,222,011	15,076,400	153,593,735	39,724,335	9,342,708	49,067,043	202,660,778
Depreciation and amortization	1,553,730	293,359	738,595	1,602,716	14,510	4,202,910	539,920	657,199	1,197,119	5,400,029
Total expenses	\$ 45,873,282	\$ 41,871,379	\$ 28,136,347	\$ 26,824,727	\$ 15,090,910	\$ 157,796,645	\$ 40,264,255	\$ 9,999,907	\$ 50,264,162	\$ 208,060,807

See notes to consolidated financial statements

The American Society for the Prevention of Cruelty to Animals

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 42,408,960	\$ 17,160,554
Adjustment to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	5,418,123	5,400,029
Change in provision for allowance for doubtful accounts	(90,227)	98,405
Net investment gains	(21,652,776)	(10,562,888)
Change in deferred rent	263,490	403,601
Change in annuity obligations	376,189	(62,534)
Unrealized gain on beneficial interests in perpetual trusts held by others	(1,982,048)	(153,694)
Pension-related adjustments other than net periodic pension costs	(501,102)	660,968
Contributions restricted for endowments	(601,555)	-
Changes in assets and liabilities:		
Bequests and contributions receivable	2,220,275	1,051,774
Other receivables, net	610,015	(3,419,557)
Prepaid expenses and other assets	1,020,014	132,252
Beneficial interests in charitable remainder trusts held by others	(67,373)	34,275
Accounts payable and accrued expenses	2,114,126	66,472
Grants payable	(162,651)	(1,242,400)
Other liabilities	(158,517)	96,177
Unfunded pension obligation	783,414	(139,622)
Net cash flows from operating activities	<u>29,998,357</u>	<u>9,523,812</u>
Cash Flows from Investing Activities		
Additions to land, building and equipment	(9,928,248)	(3,507,158)
Purchases of investments	(57,005,088)	(31,015,809)
Proceeds from sales of investments	40,268,604	19,290,197
Decrease in other receivables related to investments	-	5,786,031
Increase (decrease) in accounts payable related to land, buildings and equipment	671,541	(886,580)
Net cash flows from investing activities	<u>(25,993,191)</u>	<u>(10,333,319)</u>
Cash Flows from Financing Activities		
Contributions restricted for endowments	601,555	-
Loan repayment	(506,180)	(300,000)
Net cash flows from financing activities	<u>95,375</u>	<u>(300,000)</u>
Net change in cash and cash equivalents	4,100,541	(1,109,507)
Cash and Equivalents, Beginning of Year	<u>16,665,186</u>	<u>17,774,693</u>
Cash and Equivalents, End of Year	<u>\$ 20,765,727</u>	<u>\$ 16,665,186</u>
Supplemental Disclosures		
Cash paid during the year for interest	<u>\$ 7,161</u>	<u>\$ 24,137</u>

See notes to consolidated financial statements

The American Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

1. Description of the Organization

The American Society for the Prevention of Cruelty to Animals (the "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. The ASPCA's activities are focused on five primary program areas: animal health services, public education and communications, anticruelty programs, community outreach and grants to other animal welfare-related organizations. The ASPCA is a public charity, which is tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). The ASPCA's vision is that all animals are to be treated with respect and kindness.

In August 2015, the ASPCA entered into a contract to purchase substantially all of the assets and assume specific liabilities of Humane Alliance of WNC, Inc. ("Humane Alliance"), a North Carolina not-for-profit corporation that was exempt from federal income tax under Section 501(c)(3) (the "Transaction"). Humane Alliance was a nationally recognized organization that focused on high-volume, high-quality, low-cost companion animal sterilization since 1994.

ASPCA Veterinary Services of North Carolina, P.C. is a professional corporation that provides the veterinary services of qualified, licensed veterinarians exclusively to the ASPCA in North Carolina. These services include the veterinary services needed to operate a high-volume, high-quality companion animal sterilization training clinic in order to alleviate shelter pet overpopulation. This corporation was formed pursuant to the North Carolina Veterinary Practice Act, which forbids the ownership of any veterinary practice in North Carolina by corporations, other than duly-registered professional corporations. ASPCA is the manager of ASPCA Veterinary Services of North Carolina, P.C. per a management services agreement.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit entities and include the accounts of the ASPCA and the ASPCA Veterinary Services of North Carolina, P.C. in which the ASPCA has a controlling and economic interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Net Asset Classifications

The ASPCA'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 ASPCA and changes therein are classified and reported as follows:

Unrestricted - Resources that are available for the general support of the ASPCA's operations. The ASPCA's Board of Directors (the "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 ASPCA and to provide a source of internal funds for organization priorities.

The American Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Temporarily restricted - Net assets of which the use has been restricted by donors to specific purposes and/or the passage of time. In addition, temporarily restricted net assets also include endowment gains which have not been appropriated for expenditure. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or a purpose is accomplished, or endowment funds are appropriated through an action of the Board, those temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities and change in net assets 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 ASPCA's beneficial interests in perpetual trusts held by others.

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 ASPCA's investment portfolio that are held for long-term investment purposes.

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 ASPCA measures the 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.

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.

The American Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2017 and 2016:

Alternative investments - These funds do not make known nor do they advertise their value and their performance data is not readily available. They do not have a readily determinable fair value and are valued at net asset value ("NAV").

Fixed income securities - Publicly traded in active markets.

Mutual funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the ASPCA are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the ASPCA are deemed to be actively traded.

Short-term investments - Cash and cash equivalents held for long-term purposes.

Common stock - Publicly traded in active markets. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the ASPCA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The carrying value of cash and cash equivalents approximates fair value as of December 31, 2017 and 2016. The carrying amounts of the ASPCA's investments and beneficial interest in trusts held by others approximate fair value and are presented in the fair value hierarchy in Notes 3 and 4, respectively.

Investments

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.

Split-Interest Agreements

The ASPCA has recognized the following types of split-interest agreements:

Beneficial Interests in Perpetual Trusts Held by Others

Donors have established and funded trusts that are administered by third-party trustees. Under the terms of these trusts, the ASPCA 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 ASPCA does not control the assets held by the respective third-party trustees. Accordingly, the ASPCA recognizes its interest in such trusts, based on the fair value of the trusts.

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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' terms. Upon termination of the trusts' terms, the ASPCA receives their interest in 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 ASPCA in exchange for a promise by the ASPCA 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 ASPCA. The discount rates used to measure the liabilities ranged from 2.2% to 2.6% as of December 31, 2017 and 1.4% to 2.2% as of December 31, 2016.

Split-interest agreements are recognized as revenue when notification of an irrevocable split-interest agreement exists and when fair value can reasonably be determined.

Land, Buildings and Equipment

Land owned by the ASPCA 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. It is ASPCA policy to capitalize all purchases in excess of \$5,000 with useful lives greater than one year. 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 operations.

Land, buildings, and equipment contributed to the ASPCA are reported at fair value in the consolidated financial statements at the time of the contribution. Depreciation is calculated on buildings and equipment using the straight-line method over the estimated useful lives of the assets.

The ASPCA reports gifts of property, plant and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the ASPCA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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Impairment of Long-Lived Assets

The ASPCA reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. As of December 31, 2017 and 2016, there have been no such losses.

Assets Limited as to Use

Assets limited as to use consist of gift annuity reserves, security deposits, and separate accounts required by funders, and consist principally of cash and cash equivalents and are on deposit with two financial institutions. Assets limited as to use are stated at fair value which approximates their cost.

Deferred Rent

For accounting purposes, the total rent payable over the life of the lease, which escalates over time, is recognized on the straight-line basis. Actual rent payments differ from these reported amounts; actual rent paid is less than reported amounts in the early years of the lease and exceeds the reported amounts in the later years. Deferred rent reflects the difference between the straight-line calculation reported and the actual rent expense paid.

Accrued Vacation

Employees accrue vacation based on tenure and salary band. Unused vacation balances carry over to future years, subject to a cap. As of December 31, 2017 and 2016, accrued vacation obligations were approximately \$3,966,000 and \$3,409,000, respectively.

The ASPCA's obligation for accrued vacation is included as a liability in the accompanying consolidated statements of financial position and represents the cost of unused employee vacation time payable in the event of employee terminations.

Revenue Recognition

Contributions and memberships are considered to be available for unrestricted use, unless they are specifically restricted by the donor. 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. Bequests and contributions receivable are expected to be received within one year.

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

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The ASPCA enters into various grant and sponsorship agreements. Revenue relating to these agreements is recognized in accordance with the terms and conditions included therein. Grants are evaluated to determine if they represent an exchange transaction or contribution. If determined to be an exchange transaction, the grant is recognized as expenses are incurred. In addition, the ASPCA 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.

Contributed services are reported at fair value in the consolidated financial statements only when those services (1) create or enhance nonfinancial assets, or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The ASPCA reported contributed services revenue and related expense for the years ended December 31, 2017 and 2016 of approximately \$487,000 and \$338,000, respectively.

Donated materials are reported at fair value at the date of the donation. The ASPCA reported donated materials and service revenue and related expense of approximately \$1,000 primarily in operating supplies for the year ended December 31, 2017; and approximately \$437,000 primarily in pet supplies and event supplies and \$282,000 primarily in pet food, respectively, for the year ended December 31, 2016.

Allowance for Doubtful Accounts

Periodically, the receivable balances are reviewed and evaluated as to their collectability. An allowance is then set up based on these evaluations.

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 consolidated statements of activities and change in net assets. The various programs and supporting services of the ASPCA are as follows:

Animal health services - Includes the ASPCA Animal Hospital in New York City, Spay/Neuter clinics in New York City, Los Angeles and Asheville, North Carolina, the Behavioral Rehabilitation Center in Weaverville, North Carolina, and the Animal Poison Control Center, a 24-hour animal poison control telephone hotline in Urbana, Illinois.

Public education and communications - Includes activities to create public awareness of animal-related issues.

Anticruelty programs - Includes Humane Law Enforcement in New York and national, state, and local legislative initiatives, as well as animal behavior, animal field investigations and response, and animal forensic activities.

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

Grants - Represents programs designed to ensure the ASPCA's leadership in serving the animal welfare field.

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Membership development and fundraising - Involves the direction of the overall fundraising affairs of the ASPCA, which include development and related areas.

Management and general - Includes the direction of the overall affairs of the ASPCA, such as portions of accounting, human resources, administration, and related areas.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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, 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.

Advertising Expenses

The ASPCA uses advertising to educate the public and bring awareness to its programs and mission. The production costs of advertising are expensed as incurred. Advertising costs totaled approximately \$33,950,000 and \$33,767,000 for the years ended December 31, 2017 and 2016, respectively.

Measure of Operations

The ASPCA 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 ASPCA's mission. Nonoperating activities include bequest and trust income restricted for endowment, changes in beneficial interests in trusts held by others, actuarial adjustments to the ASPCA's frozen pension plan, and other activities considered to be of a more unusual or nonrecurring nature. In addition, the ASPCA has 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.

Income Taxes

The ASPCA and ASPCA Veterinary Services of North Carolina, P.C. qualify as tax-exempt organizations under Section 501(c)(3) of the IRC and corresponding provisions of the State law in New York State and North Carolina, and are not subject to federal or state 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 2017 or 2016.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 requires recognition of revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration for what an organization expects it will receive in association with this exchange. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of ASU 2014-09 on the ASPCA's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2016-02 on the ASPCA's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. Management is currently evaluating the impact of ASU 2016-14 on the ASPCA's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*. The core principle of the amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact of ASU 2016-18 on the ASPCA's consolidated financial statements.

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3. Investments

Investments as of December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 18,355,348	\$ 11,955,496
Common stocks	94,992	25,009,061
Fixed income securities	1,138,528	2,101,792
Mutual funds	111,501,876	64,506,548
Alternative investments	62,879,257	52,007,844
Total investments	<u>\$ 193,970,001</u>	<u>\$ 155,580,741</u>

The return on investments and interest-bearing cash and cash equivalents for the years ended December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends, net of expenses of approximately \$690,000 and \$733,000, respectively	\$ 2,014,196	\$ 1,603,280
Unrealized gains (losses)	13,118,115	8,852,755
Realized gains	8,534,661	1,710,133
Net return (loss) on Investments (including temporary restricted amounts of \$1,046,067 and \$629,015, respectively)	<u>\$ 23,666,972</u>	<u>\$ 12,166,168</u>

Spending Policy

The objective of the ASPCA's spending policy is to allocate in a reasonable and balanced manner the total earnings from the investment portfolio between current spending and reinvestment for future earnings and expenditures in order for the purchasing power of the investment portfolio to be maintained or enhanced. Such purchasing power is to provide a stable source of income to the operating fund of the ASPCA and to meet certain working capital and/or capital expenditures needs. Budgeted annual spending is generally set at the lesser of 5% of the investment portfolio's average five-year portfolio value or 5% of the beginning year balance, and is subject to approval by the Finance Committee and the Board during the annual budget review and approval process. Any overage will reduce future spending by the amount of such overage (reduction implemented over subsequent one to three years). The Finance Committee and the Board did not approve a spending amount to be used for operations in 2017 and 2016.

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The following tables present the ASPCA's fair value hierarchy for those investments measured at fair value on a recurring basis as of December 31, 2017 and 2016:

	2017		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Common stocks	\$ 94,992	\$ -	\$ 94,992
Fixed income securities	975,113	163,415	1,138,528
Mutual funds	91,738,498	19,763,378	111,501,876
Alternative investments reported at net asset value			62,879,257
Cash and cash equivalents			18,355,348
Total investments			<u>\$ 193,970,001</u>
	2016		
Common stocks	\$ 25,009,061	\$ -	\$ 25,009,061
Fixed income securities	1,718,000	383,792	2,101,792
Mutual funds	47,960,132	16,546,416	64,506,548
Alternative investments reported at net asset value			52,007,844
Cash and cash equivalents			11,955,496
Total investments			<u>\$ 155,580,741</u>

Investments with a fair value of \$12,027,826 and \$10,233,852 and cash equivalents of \$203,034 and \$148,025 as of December 31, 2017 and 2016, respectively, were held in investment accounts relating to charitable gift annuities, in compliance with the insurance laws of various states. The ASPCA maintains separate and distinct reserve funds adequate to meet the future payments of all outstanding charitable gift annuities administered by the ASPCA.

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

	2017			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long (a)	\$ 15,514,796	\$ -	Monthly	15 days
Global asset allocation, risk parity (b)	9,447,156	-	Weekly	4 days
Global asset allocation, Worldarb (b)	7,736,524	-	Quarterly	45 days
Fund of funds, private equity (c)	1,480,077	464,347	None	N/A
Fund of funds, capital appreciation (d)	7,170,431	-	Quarterly	90 days
Private equity in liquidation (e)	11,806,605	2,593,023	None	N/A
Private equity (f)	1,670,233	1,470,748	Annual	60 days
Emerging markets (g)	8,053,435	-	Daily	3 - 5 days
Total	\$ 62,879,257	\$ 4,528,118		
	2016			
Equity long (a)	\$ 10,258,333	\$ -	Monthly	30 days
Global asset allocation, risk parity (b)	8,440,866	-	Weekly	5 days
Global asset allocation, Worldarb (b)	6,848,630	-	Quarterly	45 days
Fund of funds, private equity (c)	1,792,177	553,719	None	N/A
Fund of funds, capital appreciation (d)	6,701,127	-	Quarterly	90 days
Private equity in liquidation (e)	10,638,464	3,997,225	None	N/A
Private equity (f)	1,605,991	1,520,668	Annual	60 days
Emerging markets (g)	5,722,256	-	Daily	3 - 5 days
Total	\$ 52,007,844	\$ 6,071,612		

- (a) This category includes investments in a limited partnership that invests primarily in international equity securities.
- (b) This category includes investments in a fund that invests in a diversified portfolio exposed to global developed and emerging stocks, developed country government bonds, global inflation protected bonds, and commodities, among other exposures.
- (c) 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.
- (d) This category includes several funds of funds that invest in private investment funds that utilize a variety of alternative investment strategies that seek to produce an attractive absolute return on invested capital. These strategies include arbitrage, distressed, and long/short strategies.

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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 by the ASPCA and, in these instances; distributions are received through the liquidation of the underlying assets of the fund. The ASPCA management expects liquidations to take place from approximately 2019 through 2025.
- (f) This category includes several private equity funds that invest in privately held corporations and domestic and international venture capital and private funds.
- (g) This category includes investments in a fund that invests in a diversified portfolio of emerging market securities.

4. Beneficial Interests in Trusts Held by Others

Included, as beneficial interests in trusts held by others in the accompanying consolidated statements of financial position are remainder interests in several irrevocable trusts. The present value of the ASPCA's share of future interests in charitable remainder trusts amounted to approximately \$1,002,000 and \$934,000 as of December 31, 2017 and 2016, respectively, and has been included in temporarily restricted net assets. The present values of the trusts are calculated using discount rates ranging from 6.0% to 7.6%, as of December 31, 2017 and 2016. Beneficial interests in perpetual third-party trusts of approximately \$20,126,000 and \$18,144,000 valued at the ASPCA's share of the fair value of the underlying trust assets, are included in permanently restricted net assets as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the ASPCA'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 ASPCA's Level 3 beneficial interests in trusts held by third-party trustees for the years ended December 31, 2017 and 2016.

	2017		
	Charitable Remainder Trusts	Perpetual Trusts	Total
Balance, December 31, 2016	\$ 934,164	\$ 18,143,554	\$ 19,077,718
Acquisitions	26,905	-	26,905
Dispositions	(54,477)	-	(54,477)
Net appreciation	94,945	1,982,048	2,076,993
Balance, December 31, 2017	<u>\$ 1,001,537</u>	<u>\$ 20,125,602</u>	<u>\$ 21,127,139</u>

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	2016		
	Charitable Remainder Trusts	Perpetual Trusts	Total
Balance, December 31, 2015	\$ 968,439	\$ 17,989,860	\$ 18,958,299
Dispositions	(25,000)	-	(25,000)
Net appreciation (appreciation)	(9,275)	153,694	144,419
Balance, December 31, 2016	<u>\$ 934,164</u>	<u>\$ 18,143,554</u>	<u>\$ 19,077,718</u>

5. Land, Buildings, and Equipment, Net

Land, buildings, and equipment as of December 31, 2017 and 2016 consisted of the following:

	Estimated Useful Lives	2017	2016
Land	-	\$ 5,321,057	\$ 5,321,057
Buildings	20 - 40 years	18,829,196	18,781,877
Building improvements	3 - 25 years	38,334,999	37,500,346
Furniture, fixtures and equipment	3 - 10 years	20,921,669	20,333,770
Transportation equipment	4 - 6 years	7,290,009	6,204,762
Construction in progress		9,381,892	2,292,408
Total cost		100,078,822	90,434,220
Less accumulated depreciation and amortization		<u>46,043,400</u>	<u>40,908,923</u>
Net land, buildings, and equipment		<u>\$ 54,035,422</u>	<u>\$ 49,525,297</u>

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6. Pension Plan

The ASPCA 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 ASPCA based upon calculations performed by the plan's actuary.

The actuarial present value of the benefit obligation recognized in the accompanying consolidated statements of financial position as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Projected benefit obligation, beginning of year	\$ 17,925,679	\$ 17,033,873
Interest cost	680,225	718,250
Actuarial (gain) loss	(63,488)	99,471
Assumption change	816,325	686,398
Benefits paid	(938,175)	(612,313)
	<u>18,420,566</u>	<u>17,925,679</u>
Projected and accumulated benefit obligation, end of year	<u>\$ 18,420,566</u>	<u>\$ 17,925,679</u>
	<u>2017</u>	<u>2016</u>
Fair value of plan assets, beginning of year	\$ 12,286,014	\$ 11,915,554
Return on plan assets	927,834	332,773
Employer contributions	222,916	650,000
Benefits paid	(938,175)	(612,313)
	<u>12,498,589</u>	<u>12,286,014</u>
Fair value of plan assets, end of year	<u>12,498,589</u>	<u>12,286,014</u>
	<u>\$ (5,921,977)</u>	<u>\$ (5,639,665)</u>
Funded status of plan, end of year	<u>\$ (5,921,977)</u>	<u>\$ (5,639,665)</u>
	<u>2017</u>	<u>2016</u>
Amounts included in the consolidated statements of financial position:		
Unfunded pension obligation	\$ (5,921,977)	\$ (5,639,665)
Net accumulated actuarial loss within unrestricted net assets	9,214,114	9,715,216

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During the year ended December 31, 2017, certain assumptions were used to determine the projected benefit obligation in anticipation of plan termination in 2018. Retirees are valued assuming a group annuity purchase, which is representative of the annuity cost but not an actual annuity quote. For lump sum purposes, amounts are based on the §IRC 417(e) segment rates for August 2017 and the prescribed mortality assumption for 2018. The assumption changes increased the benefit obligation by \$816,325.

Components of net periodic pension cost in the consolidated statements of activities and change in net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Interest cost	\$ 680,225	\$ 718,250
Expected return on plan assets	(384,446)	(801,641)
Actuarial loss	710,551	593,769
Net periodic pension cost	<u>\$ 1,006,330</u>	<u>\$ 510,378</u>

The weighted average rates used to determine net periodic pension cost and the year-end benefit obligation for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate, benefit obligation	N/A %	4.05 %
Discount rate, net periodic benefit cost	4.05	4.40
Expected long-term rate of return on plan assets	6.25	7.00

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

	<u>2017</u>	<u>2016</u>
Net actuarial loss arising during measurement period	\$ (209,449)	\$ (1,254,737)
Amortization of net actuarial gain	710,551	593,769
Total	<u>\$ 501,102</u>	<u>\$ (660,968)</u>

The net accumulated actuarial loss within unrestricted net assets expected to be recognized in net periodic benefit cost during 2018 is \$9,214,114.

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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 tables categorize the inputs used to report the fair value of the plan's investments within the fair value hierarchy as of December 31, 2017 and 2016:

	2017		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Separate pooled accounts:			
Short duration	\$ -	\$ 12,498,589	\$ 12,498,589
Total investments	<u>\$ -</u>	<u>\$ 12,498,589</u>	<u>\$ 12,498,589</u>
	2016		
Separate pooled accounts:			
International	\$ 1,196,380	\$ -	\$ 1,196,380
Short duration	256,777	-	256,777
Intermediate duration	831,368	-	831,368
Long duration	4,396,294	-	4,396,294
Extended duration	252,745	-	252,745
Small cap value	282,640	-	282,640
Large cap value	4,965,781	-	4,965,781
Core plus bond	104,029	-	104,029
Total investments	<u>\$ 12,286,014</u>	<u>\$ -</u>	<u>\$ 12,286,014</u>

The plan's weighted average asset allocation as of December 31, 2017 and 2016, by asset category, is as follows:

	2017	2016
Equities	-	40.4 %
Fixed income	100.0	45.5
Mutual funds	-	12.0
Cash and cash equivalents	-	2.1
Total	<u>100.0 %</u>	<u>100.0 %</u>

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Plan benefits are expected to be paid as follows for the year ending December 31:

2018	\$ 18,420,566
2019	-
2020	-
2021	-
2022	-
2023-2025	-
Total	<u>\$ 18,420,566</u>

Projected contributions for 2018 are estimated to be approximately \$5,922,000.

The ASPCA Board passed resolutions in February and April of 2017 authorizing the termination of the defined benefit pension plan as of July 1, 2017 along with the expenditures of up to \$6,500,000 to effectuate it. In conjunction with the termination, the asset allocation strategy of the plan was changed to 100% fixed income. The termination has been acknowledged by the Pension Benefit Guaranty Corporation on December 19, 2017, and approval by the Internal Revenue Service is pending. The ASPCA's defined benefit pension plan was frozen effective June 30, 2006 and had an unfunded liability of \$5,922,000 as of December 31, 2017. The termination process is expected to conclude within the next year.

The ASPCA also sponsors a 401(k) defined contribution retirement plan. Substantially all full-time employees over age 21 are eligible to participate. The ASPCA 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 approximately \$3,583,000 and \$3,270,000 in 2017 and 2016, respectively.

7. 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, 2017 and 2016, these costs were allocated as follows:

	<u>2017</u>	<u>2016</u>
Program	\$ 34,333,397	\$ 33,182,861
Membership development and fundraising	35,619,338	30,988,515
Management and general	83,414	497,339
Total	<u>\$ 70,036,149</u>	<u>\$ 64,668,715</u>

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8. Grants

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 and that the grants are either unconditional or the conditions have been substantially met. No grant payments may be made prior to the final approval.

The ASPCA granted approximately \$11,840,000 and \$14,144,000 during the years ended December 31, 2017 and 2016, respectively. The grants were spent in furtherance of the mission in the following program areas:

	<u>2017</u>	<u>2016</u>
Anticruelty:		
Anticruelty response	\$ 1,427,624	\$ 2,682,675
Disaster/emergency	537,987	153,800
Equine	782,696	1,169,070
Farm animals	158,308	398,010
Total anticruelty	<u>2,906,615</u>	<u>4,403,555</u>
Community Outreach:		
Live release	4,240,722	4,672,325
Relocation	949,000	875,474
Spay/neuter	2,292,416	2,769,216
Return to owner	37,600	45,600
Surrender prevention	1,461,613	1,417,500
Other	2,500	118,500
Total community outreach	<u>8,983,851</u>	<u>9,898,615</u>
Grant refunds	<u>(49,976)</u>	<u>(157,693)</u>
Total amount granted	11,840,490	14,144,477
Other grant expenses	<u>1,110,754</u>	<u>946,433</u>
Total grant expenses	<u>\$ 12,951,244</u>	<u>\$ 15,090,910</u>

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9. Net Assets

The ASPCA's net assets are for the following purposes as of December 31, 2017 and 2016:

Unrestricted Net Assets

	<u>2017</u>	<u>2016</u>
Operating	\$ 146,130,117	\$ 113,421,837
Board-designated endowment funds	<u>55,402,298</u>	<u>48,112,075</u>
Total	<u>\$ 201,532,415</u>	<u>\$ 161,533,912</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Animal health services	\$ 30,077,352	\$ 28,840,290
Anticruelty programs	223,810	47,386
Grants and sponsorships	3,546,246	3,774,277
Restricted for use in future periods	10,128,846	11,672,447
Other	<u>485,068</u>	<u>300,068</u>
Total	<u>\$ 44,461,322</u>	<u>\$ 44,634,468</u>

During each year, net assets released from restrictions resulted from the satisfying of the following donor restrictions:

	<u>2017</u>	<u>2016</u>
Animal health services	\$ 5,105,291	\$ 3,960,127
Anticruelty programs	3,495,570	1,336,334
Grants and sponsorships	3,457,118	5,483,237
Time restrictions satisfied	10,390,174	15,759,973
Other	<u>1,999,156</u>	<u>1,230,768</u>
Total	<u>\$ 24,447,309</u>	<u>\$ 27,770,439</u>

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Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beneficial interest in perpetual trusts	\$ 20,125,602	\$ 18,143,554
Donor-restricted endowment funds	<u>7,505,110</u>	<u>6,903,555</u>
Total	<u>\$ 27,630,712</u>	<u>\$ 25,047,109</u>

10. Endowment Net Assets

Interpretation of Relevant Law

The ASPCA's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowment. The ASPCA's endowment is subject to the provisions of the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). Under NYPMIFA, the ASPCA manages an endowment fund consisting of donor-restricted and board-designated funds that are not wholly expendable on a current basis. The ASPCA maintains the historic value of each endowment fund and appropriates the appreciation of each fund, but not the original value. These funds are maintained in the ASPCA's investment portfolio which is governed by the investment policy. All earnings on the permanently restricted endowment fund are recorded as temporarily restricted. Appropriation occurs in the form of the spending policy which is approved by the board of directors of the ASPCA during the annual budget process.

Return Objectives and Risk Parameters

The Board has adopted investment and spending policies for the ASPCA's endowment assets that seek to provide a predictable stream of funding to programs supported by its endowment funds, and maintain the purchasing power of the endowment over time.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the ASPCA relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The ASPCA targets a diversified asset allocation within prudent risk constraints.

Spending Policy

The ASPCA applies the spending policy described in Note 3 to its endowment funds.

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Funds with Deficiencies

Due to unfavorable market fluctuations, from time-to-time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. There were no such deficiencies in either year 2017 or 2016.

The following summarizes the ASPCA's endowment net asset composition as of December 31, 2017 and 2016:

Endowment Composition By Net Asset Category	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,090,660	\$ 7,505,110	\$ 10,595,770
Board-designated endowment funds	55,402,298	-	-	55,402,298
Total endowment funds	<u>\$ 55,402,298</u>	<u>\$ 3,090,660</u>	<u>\$ 7,505,110</u>	<u>\$ 65,998,068</u>
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	\$ 48,112,075	\$ 2,044,593	\$ 6,903,555	\$ 57,060,223
Contributions and bequests	-	-	601,555	601,555
Investment return	7,290,223	1,046,067	-	8,336,290
Appropriation for expenditures	-	-	-	-
Endowment net assets, end of year	<u>\$ 55,402,298</u>	<u>\$ 3,090,660</u>	<u>\$ 7,505,110</u>	<u>\$ 65,998,068</u>
2016				
Endowment Composition By Net Asset Category	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,044,593	\$ 6,903,555	\$ 8,948,148
Board-designated endowment funds	48,112,075	-	-	48,112,075
Total endowment funds	<u>\$ 48,112,075</u>	<u>\$ 2,044,593</u>	<u>\$ 6,903,555</u>	<u>\$ 57,060,223</u>
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	\$ 44,094,425	\$ 1,415,578	\$ 6,903,555	\$ 52,413,558
Contributions and bequests	-	-	-	-
Investment return	4,017,650	629,015	-	4,646,665
Appropriation for expenditures	-	-	-	-
Endowment net assets, end of year	<u>\$ 48,112,075</u>	<u>\$ 2,044,593</u>	<u>\$ 6,903,555</u>	<u>\$ 57,060,223</u>

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11. Special Events Revenue and Direct Expenses

Revenue generated from special events and the related direct expenses for the years ended December 31, 2017 and 2016 are reported within royalties, licenses and other operating support and revenue on the statements of activities and change in net assets and are summarized as follows:

	<u>Gross Revenue</u>	<u>Costs of Direct Benefits to Donors</u>	<u>Net Revenue</u>
Year ended December 31, 2017	\$ 1,283,649	\$ 780,481	\$ 503,168
Year ended December 31, 2016	\$ 1,024,655	\$ 919,768	\$ 104,887

12. Commitments and Contingencies

Operating Leases

The ASPCA holds leases in Queens, New York, Washington DC, Urbana, Illinois and Los Angeles, California. The aggregate commitment under these leases will be charged to expense on a straight-line basis over the terms of respective leases. The ASPCA's approximate aggregate annual minimum rental obligations as of December 31, 2017 for facilities under operating leases expiring through 2026 are:

2018	\$ 4,230,000
2019	4,120,000
2020	3,780,000
2021	3,440,000
2022	3,360,000
Thereafter	<u>13,410,000</u>
Total	<u>\$ 32,340,000</u>

The difference between rent expense incurred by the ASPCA on an accrual basis and the rent amounts paid in cash is reported as deferred rent payable in the accompanying consolidated statements of financial position.

Litigation

The ASPCA is a defendant in several lawsuits arising in the normal course of operations. All of the significant suits and many of the others involve insured risks, subject to deductibles and co-insurance requirements. While outside counsel cannot predict the outcome of such litigation, management does not expect the net financial outcome to have a material effect on the financial position, change in net assets, and cash flows of the ASPCA.

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Financing Activities

The ASPCA entered into a revolving line of credit with TD Bank on June 8, 2015 in the amount of \$15,000,000 with an interest rate per annum of 1.25% percentage points in excess of the London Interbank Offered Rate ("LIBOR"); or a fluctuating interest rate equal to prime. The purpose of the line of credit is for the short term working capital needs of the ASPCA. There was no balance on the line of credit as of December 31, 2017 and 2016.

The ASPCA assumed two loans previously held by Humane Alliance as part of the acquisition on August 1, 2015. The total balance of those loans at acquisition was \$160,000 and \$806,000. The first loan was paid in full in 2015. The second loan has an interest rate of 3.5%, with principal payments made annually in July and interest payments made monthly. This loan was paid in full in 2017. The balance of that loan, which is included in deferred rent and other on the accompanying consolidated statements of financial position as of December 31, 2017 and 2016, was \$-0- and \$506,000, respectively. Interest expense on the loans was approximately \$7,000 and \$24,000 for the years ended December 31, 2017 and 2016, respectively.

Concentration of Credit Risks

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

13. Subsequent Events

The ASPCA has evaluated subsequent events through June 15, 2018, which is the date the consolidated financial statements were available to be issued and determined that there were no additional subsequent events that would require recognition or disclosure in the accompanying consolidated financial statements.