

NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS FOUNDATION, INC.



Consolidated Financial Statements

(Together with Independent Auditors' Report)

For the Years Ended December 31, 2017 and 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND
THE PET SAVERS FOUNDATION, INC**

**CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Shore Animal League America, Inc. and The Pet Savers Foundation, Inc.
Port Washington, New York

We have audited the accompanying consolidated financial statements of North Shore Animal League America, Inc. and The Pet Savers Foundation, Inc. (collectively, the "Organization"), which comprise the consolidated statements of financial position, as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 auditor's 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 entity'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 consolidated financial position of North Shore Animal League America, Inc. and The Pet Savers Foundation, Inc. as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of the Organization taken as a whole. The supplemental consolidating information on pages 21 and 22 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual affiliates and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marks Paneth LLP

New York, NY
June 29, 2018

NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents (Notes 2D, 3, and 11)	\$ 2,231,971	\$ 1,778,694
Restricted cash (Note 2E)	23,924,440	22,259,343
Bequests receivable (Note 2O)	471,886	244,222
Bequests receivable - Estate of Elizabeth Lewyt, net (Notes 2O and 4)	-	1,975,039
Other receivables	1,511,730	1,858,006
Prepaid expenses and other assets	348,784	413,692
Inventory (Note 2F)	726,507	890,463
Investments (Notes 2G, 2H, and 3)	9,385,582	8,679,433
Property and equipment, net (Notes 2K and 5)	13,775,198	13,011,247
TOTAL ASSETS	\$ 52,376,098	\$ 51,110,139
LIABILITIES		
Accounts payable and accrued expenses	\$ 4,863,867	\$ 4,335,002
Annuity payment liability (Note 2L)	701,785	825,578
Accrued pension benefit obligation (Note 6)	5,841,603	5,272,505
Line of credit (Note 10)	2,499,825	999,825
TOTAL LIABILITIES	13,907,080	11,432,910
COMMITMENTS AND CONTINGENCIES (Note 13)		
NET ASSETS (Notes 2C and 7)		
Unrestricted		
Available for operations	947,304	1,947,474
Net investment in property and equipment	13,775,198	13,011,247
Total unrestricted	14,722,502	14,958,721
Temporarily restricted (Notes 7 and 12)	23,183,600	24,155,592
Permanently restricted (Notes 7 and 12)	562,916	562,916
TOTAL NET ASSETS	38,469,018	39,677,229
TOTAL LIABILITIES AND NET ASSETS	\$ 52,376,098	\$ 51,110,139

NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Year Ended December 31, 2017				Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016	Unrestricted	Temporarily Restricted	Permanently Restricted
OPERATING REVENUES, GAINS AND OTHER SUPPORT:								
Special events revenue (net of direct expenses of \$78,909 and \$121,001 in 2017 and 2016, respectively)	\$ 103,675	\$ 515,738	\$ -	\$ 619,413	\$ 759,570	\$ 48,897	\$ 710,673	\$ -
Bequests (Note 2O)	3,699,311	-	-	3,699,311	5,736,816	5,736,816	-	-
Bequest - Estate of Elisabeth Lewyt, net (Notes 2O and 4)	-	24,961	-	24,961	34,239	-	34,239	-
Contributions (Note 2M)	21,765,756	3,184,432	-	24,950,188	25,915,934	23,721,222	2,094,712	100,000
In-kind contributions (Note 2N)	624,881	-	-	624,881	738,191	738,191	-	-
Program service revenue (Note 2Q):								
Pet Rescue and Adoption	1,403,559	11,225	-	1,414,784	1,374,060	1,370,000	4,060	-
Humane Education	32,787	-	-	32,787	70,042	70,042	-	-
Spay/Neuter & Veterinary Care	7,002,388	-	-	7,002,388	6,536,120	6,536,120	-	-
Pet Savers Foundation	16,490	-	-	16,490	57,377	57,377	-	-
Total program service revenue	8,455,224	11,225	-	8,466,449	8,037,599	8,033,539	4,060	-
Dividends and interest (Note 3)	330,527	13,460	-	343,987	322,574	311,405	11,169	-
Pet store sales (net of cost of goods sold of \$171,272 and \$258,195 in 2017 and 2016, respectively)	142,594	-	-	142,594	183,085	183,085	-	-
List rental income	409,623	-	-	409,623	458,704	458,704	-	-
Other revenue	42,011	-	-	42,011	66,421	66,421	-	-
Reclassification of unrestricted net assets (Note 7)	(67,363)	67,363	-	-	-	-	-	-
Net assets released from restrictions	4,880,254	(4,880,254)	-	-	-	3,832,747	(3,832,747)	-
TOTAL OPERATING REVENUES, GAINS AND OTHER SUPPORT	40,386,493	(1,063,075)	-	39,323,418	42,253,133	43,131,027	(977,894)	100,000
OPERATING EXPENSES:								
Program Services								
Pet Rescue and Adoption	14,414,743	-	-	14,414,743	13,754,280	13,754,280	-	-
Humane Education	4,933,545	-	-	4,933,545	5,080,383	5,080,383	-	-
Spay/Neuter and Vet Care	14,752,675	-	-	14,752,675	15,409,358	15,409,358	-	-
Pet Savers Foundation	371,314	-	-	371,314	382,669	382,669	-	-
Total program services	34,472,277	-	-	34,472,277	34,626,690	34,626,690	-	-
Supporting Services:								
Management and general	1,553,158	-	-	1,553,158	1,508,214	1,508,214	-	-
Fundraising	5,405,962	-	-	5,405,962	5,619,912	5,619,912	-	-
Total supporting services	6,959,120	-	-	6,959,120	7,128,126	7,128,126	-	-
TOTAL OPERATING EXPENSES	41,431,397	-	-	41,431,397	41,754,816	41,754,816	-	-
CHANGE IN NET ASSETS FROM OPERATIONS	(1,044,904)	(1,063,075)	-	(2,107,979)	498,317	1,376,211	(977,894)	100,000
Net realized gain and unrealized loss on investments (Note 3)	1,118,304	91,083	-	1,209,387	702,212	664,460	37,752	-
Change in value of split-interest agreements (Note 2L)	23,020	-	-	23,020	(78,041)	(78,041)	-	-
Pension related changes other than net periodic pension costs (Note 6)	(332,639)	-	-	(332,639)	445,157	445,157	-	-
CHANGE IN NET ASSETS	(236,219)	(971,992)	-	(1,208,211)	1,567,645	2,407,787	(940,142)	100,000
Net assets, beginning of year	14,958,721	24,155,592	562,916	39,677,229	38,109,584	12,550,934	25,095,734	462,916
NET ASSETS - END OF YEAR	\$ 14,722,502	\$ 23,183,600	\$ 562,916	\$ 38,469,018	\$ 39,677,229	\$ 14,958,721	\$ 24,155,592	\$ 562,916

The accompanying notes are an integral part of these consolidated financial statements.

NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND
THE PET SAVERS FOUNDATION, INC. CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for 2016)

	For the Year Ended December 31, 2017									
	Program Services					Supporting Services				
	Pet Rescue and Adoption	Humane Education	Spay/Neuter and Vet Care	Pet Savers Foundation	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2017	Total 2016
Salaries	\$ 4,384,661	\$ 1,547,924	\$ 5,997,551	\$ -	\$ 11,930,136	\$ 508,155	\$ 1,187,012	\$ 1,695,167	\$ 13,625,303	\$ 13,581,342
Payroll taxes and employee benefits (Note 6)	1,753,417	625,308	2,380,771	-	4,759,496	220,623	484,923	705,546	5,465,042	5,944,532
Salaries and Related Costs	6,138,078	2,173,232	8,378,322	-	16,689,632	728,778	1,671,935	2,400,713	19,090,345	19,525,874
Grants to other organizations	6,750	10,250	500	-	17,500	-	-	-	17,500	14,000
Professional fees	129,783	95,510	223,220	353,654	802,167	153,644	254,831	408,475	1,210,642	1,226,335
Advertising and promotion (Note 2R)	331,929	110,989	133,720	-	576,638	-	108,761	108,761	685,399	668,393
Office expenses	287,620	123,943	285,436	3,803	700,802	193,764	204,715	398,479	1,099,281	1,112,078
Occupancy	131,833	52,413	111,578	-	295,824	87,356	87,356	174,712	470,536	386,050
Information technology	356,862	148,086	227,705	12,405	745,058	28,093	189,538	217,631	962,689	810,842
Travel	182,671	35,267	28,508	-	246,446	-	20,452	20,452	266,898	262,914
Conferences	1,019	444	614	-	2,077	-	3,021	3,021	5,098	9,785
Interest	-	-	-	-	-	65,749	-	65,749	65,749	77,441
Insurance	73,057	36,529	73,058	-	182,644	60,882	60,882	121,764	304,408	278,918
Direct response expenses	-	-	-	-	-	-	2,471,394	2,471,394	2,471,394	2,665,776
Program education materials	3,880,893	1,577,274	2,330,288	-	7,788,455	-	-	-	7,788,455	7,817,436
Animal rescue, adoption & medical (Note 2N)	2,383,720	415,680	2,623,081	-	5,422,481	8,602	16,758	25,360	5,447,841	5,475,012
Events and public relations	222,569	9,393	13,922	-	245,884	-	37,163	37,163	283,047	247,831
Depreciation (Note 5)	222,583	111,291	222,582	1,452	557,908	185,485	185,561	371,046	928,954	837,729
Bad debt expense	5,895	3,262	23,463	-	32,620	-	-	-	32,620	40,000
All other expenses	59,481	29,982	76,678	-	166,141	40,805	93,595	134,400	300,541	298,402
Subtotal	8,276,665	2,760,313	6,374,353	371,314	17,782,645	824,380	3,734,027	4,558,407	22,341,052	22,228,942
TOTAL EXPENSES	\$ 14,414,743	\$ 4,933,545	\$ 14,752,675	\$ 371,314	\$ 34,472,277	\$ 1,553,158	\$ 5,405,962	\$ 6,959,120	\$ 41,431,397	\$ 41,754,816

NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	For the Year Ended December 31, 2016								
	Program Services					Supporting Services			
	Pet Rescue and Adoption	Humane Education	Spay/Neuter and Vet Care	Pet Savers Foundation	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2016
Salaries	\$ 4,362,200	\$ 1,551,026	\$ 6,009,053	\$ -	\$ 11,922,279	\$ 489,632	\$ 1,169,431	\$ 1,659,063	\$ 13,581,342
Payroll taxes and employee benefits (Note 6)	<u>1,919,142</u>	<u>687,761</u>	<u>2,567,121</u>	<u>-</u>	<u>5,174,024</u>	<u>236,722</u>	<u>533,786</u>	<u>770,508</u>	<u>5,944,532</u>
Salaries and Related Costs	6,281,342	2,238,787	8,576,174	-	17,096,303	726,354	1,703,217	2,429,571	19,525,874
Grants to other organizations	5,400	8,200	400	-	14,000	-	-	-	14,000
Professional fees	109,907	94,159	217,398	353,519	774,983	142,453	308,899	451,352	1,226,335
Advertising and promotion (Note 2R)	322,567	113,551	127,098	-	563,216	-	105,177	105,177	668,393
Office expenses	292,140	141,663	274,724	4,351	712,878	195,389	203,811	399,200	1,112,078
Occupancy	92,652	46,326	92,652	-	231,630	77,210	77,210	154,420	386,050
Information technology	296,704	128,037	188,880	18,678	632,299	21,881	156,662	178,543	810,842
Travel	176,240	42,569	26,890	-	245,699	97	17,118	17,215	262,914
Conferences	2,119	2,995	1,141	-	6,255	-	3,530	3,530	9,785
Interest	-	-	-	-	-	77,441	-	77,441	77,441
Insurance	66,940	33,470	66,940	-	167,350	55,784	55,784	111,568	278,918
Direct response expenses	-	-	-	-	-	-	2,665,776	2,665,776	2,665,776
Program education materials	3,877,137	1,610,604	2,329,695	-	7,817,436	-	-	-	7,817,436
Animal rescue, adoption & medical (Note 2N)	1,789,662	472,251	3,186,303	-	5,448,216	9,157	17,639	26,796	5,475,012
Events and public relations	179,570	10,628	15,346	-	205,544	-	42,287	42,287	247,831
Depreciation (Note 5)	200,593	100,296	200,593	1,829	503,311	167,161	167,257	334,418	837,729
Bad debt expense	6,800	4,000	29,200	-	40,000	-	-	-	40,000
All other expenses	<u>54,507</u>	<u>32,847</u>	<u>75,924</u>	<u>4,292</u>	<u>167,570</u>	<u>35,287</u>	<u>95,545</u>	<u>130,832</u>	<u>298,402</u>
Subtotal	<u>7,472,938</u>	<u>2,841,596</u>	<u>6,833,184</u>	<u>382,669</u>	<u>17,530,387</u>	<u>781,860</u>	<u>3,916,695</u>	<u>4,698,555</u>	<u>22,228,942</u>
TOTAL EXPENSES	<u>\$ 13,754,280</u>	<u>\$ 5,080,383</u>	<u>\$ 15,409,358</u>	<u>\$ 382,669</u>	<u>\$ 34,626,690</u>	<u>\$ 1,508,214</u>	<u>\$ 5,619,912</u>	<u>\$ 7,128,126</u>	<u>\$ 41,754,816</u>

The accompanying notes are an integral part of these consolidated financial statements.

NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,208,211)	\$ 1,567,645
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	928,954	837,729
Change in value of split interest agreements	(23,020)	78,041
Bad debt expense	32,620	40,000
Net realized and unrealized gain on investments	(1,209,387)	(702,212)
Subtotal	(1,479,044)	1,821,203
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Bequests receivable	(227,664)	605,379
Bequest receivable - Estate of Elisabeth Lewyt, net	1,975,039	1,965,761
Other receivables	313,656	652,931
Inventory	163,956	(252,748)
Prepaid expenses and other assets	64,908	(200,506)
Increase (decrease) in liabilities:		
Accounts and accrued expenses payable	528,865	(584,136)
Annuity payment liability	(100,773)	(148,798)
Accrued pension benefit obligation	569,098	162,116
Net Cash Provided by Operating Activities	1,808,041	4,021,202
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restrictions placed on cash	(1,665,097)	(2,347,497)
Proceeds from sales of investments	1,780,826	2,987,637
Purchases of investments	(1,277,588)	(2,561,664)
Purchases of property and equipment	(1,692,905)	(1,896,070)
Net Cash Used in Investing Activities	(2,854,764)	(3,817,594)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,500,000	2,700,000
Principal repayments of long-term debt	-	(2,800,000)
Net Cash Provided by (Used in) Financing Activities	1,500,000	(100,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	453,277	103,608
Cash and cash equivalents - beginning of year	1,778,694	1,675,086
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,231,971	\$ 1,778,694
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 65,749	\$ 77,441

The accompanying notes are an integral part of these consolidated financial statements.

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND
THE PET SAVERS FOUNDATION, INC
DECEMBER 31, 2017 AND 2016**

NOTE 1 – DESCRIPTION OF ORGANIZATION

These consolidated financial statements have been prepared by consolidating North Shore Animal League America, Inc. (the “League”) and its affiliate, The Pet Savers Foundation, Inc. (the “Foundation”) (collectively, the “Organization”).

The League was founded to provide, promote and advance the protection, care and humane treatment of animals. The League rescues and cares for orphaned dogs and cats locally and nationally by providing food, shelter and medical care. The League arranges for adoptions, spaying and neutering and conducts ongoing humane education programs.

In accordance with a policy adopted by the Board of Directors, the League solicits contributions through direct mail, specifically designated to support the mission of the League. In addition, the League receives donations and bequests to fund its operations.

The Foundation was founded to promote and advance the humane treatment of animals, primarily dogs and cats, to foster kindness to animals and to promote their welfare through humane education programs.

The Foundation is an innovator in the field of companion animal welfare by creating mission-driven, groundbreaking programs that are piloted and then adopted by shelters nationwide.

The Foundation oversees the American Mutt-i-grees® Movement, a national program that raises awareness of the plight of shelter animals, elevates the status of mixed-breed dogs and increases shelter adoptions to reduce euthanasia. As part of this initiative, the Foundation is working in collaboration with Yale University’s School of the 21st Century to develop an innovative curriculum to educate children to build social and emotional skills and address critical behavioral issues while communicating the value of shelter animals. See Note 14.

The Foundation also operates a co-operative buying program that enables animal shelters to provide needed services at a lower price.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. ***Basis of Accounting and Use of Estimates*** – The Organization’s financial statements are prepared on the accrual basis of accounting. The Organization adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- B. ***Principles of Consolidation*** – The Organization’s accompanying consolidated financial statements include the financial statements of the League and the Foundation. The League has consolidated the Foundation pursuant to U.S GAAP due to its financial interest and control over it. All material intercompany transactions and balances have been eliminated in the consolidation.
- C. ***Basis of Presentation*** – U.S. GAAP requires nonprofits to maintain their net assets under the following classes:

Unrestricted - This represents net assets not subject to donor-imposed stipulations and that have no time restrictions. Such resources are available for support of the Organization’s operations over which the Board of Directors has discretionary control.

Temporarily Restricted - This represents net assets subject to donor-imposed stipulations that will be met by actions of the League or by the passage of time. When a stipulated time restriction ends, or purpose restriction is accomplished, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization has purpose and time restricted temporarily restricted net assets of \$23,183,600 and \$24,155,592 as of December 31, 2017 and 2016, respectively.

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND
THE PET SAVERS FOUNDATION, INC
DECEMBER 31, 2017 AND 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Permanently Restricted - This represents net assets subject to donor-imposed stipulations that they be maintained permanently by the League. Generally, the donors of these assets permit the League to use all or part of the income earned for unrestricted or donor-specified purposes. The Organization's permanently restricted net assets are \$562,916 as of December 31, 2017 and 2016.

- D. **Cash and Cash Equivalents** – The Organization considers highly liquid investments purchased with maturities of three months or less to be cash and cash equivalents.
- E. **Restricted Cash** – The Organization holds restricted cash accounts for the purpose of fulfilling restrictions set by donors. Such amounts are reflected as restricted cash in the consolidated statements of financial position.
- F. **Inventory** – Inventory consists of food, drugs and other pet supplies. Inventory is valued at the lower of cost or market.
- G. **Investments** - Investments are carried at fair value. The value assigned to investments received by gift is the fair value at the date of donation. Changes in the fair value of investments are recorded as unrealized gains or losses and are reflected in the consolidated statements of activities.
- H. **Fair Value Measurements** – Investments are stated at fair value. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as reported in Note 3.
- I. **Contributions, Grants and Accounts Receivable** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Contributions, including unconditional promises to give, are recognized in the period received. Interest is not charged on outstanding receivables.
- J. **Allowance for Doubtful Accounts** - The Organization determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its accounts, current economic conditions, subsequent receipts and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. As of December 31, 2017 and 2016, there was an allowance for doubtful accounts recorded of \$58,441 and \$68,901, respectively.
- K. **Fixed Assets** - Leasehold improvements and equipment are recorded at cost less accumulated amortization and depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or useful lives of the assets, whichever is shorter. The Organization's policy is to capitalize purchases greater than \$1,000 with an estimated useful life of at least one year.

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- L. ***Split-Interest Agreements*** - The League has entered into Charitable Gift Annuities with donors. These are agreements between a donor and the League in which the donor contributes an asset in exchange for an obligation for the League to pay a fixed amount to the donor or other designated beneficiaries for a specific period of time. At the time these agreements are entered into, a liability is recognized for the present value of the annuity obligation, the assets are recorded at fair market value and a contribution is recognized for the difference. The liability is re-calculated annually, and the adjustment is recorded as changes in value of split-interest agreements in the non-operating section of the consolidated statement of activities. The split-interest agreements had a gain/(loss) of \$23,020 and \$(78,041), respectively for the years ended December 31, 2017 and 2016, respectively. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. The League invests, manages, and administers the annuities. The portfolio of assets meets all requirements concerning permissible investments and mandated reserves as required by law.
- M. ***Contributions*** - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- N. ***Contributed Goods and Services*** - Contributed goods and services meeting criteria established under GAAP are reflected as both contribution revenue and expenses in the accompanying consolidated statements of activities at their estimated fair value at the date of receipt. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. The Organization recorded contributed goods of \$624,881 and \$738,191 for the years ended December 31, 2017 and 2016, respectively.
- Donated securities acquired by gift or bequest are liquidated as soon as it is practical to do so. In addition, the Organization receives services from a large number of volunteers who donate their time to the Organization's programs, special fund-raising events and management. No amounts have been recorded for these types of donated services, as they do not meet the criteria for recognition.
- O. ***Bequests*** - Bequests are recorded as revenues at fair value at the time an unassailable right to the gift has been established and the proceeds are measurable.
- P. ***Functional Allocation of Expenses*** - The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- Q. ***Services Fees*** - Revenues from service fees are recognized in the accounting period in which the services are provided.
- R. ***Advertising*** - Advertising fees are expensed as incurred.

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NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Equities	\$ 9,101,672	\$ 8,209,149
U.S. Treasuries	20,550	156,702
Corporate Bonds	<u>263,360</u>	<u>313,582</u>
	<u>\$ 9,385,582</u>	<u>\$ 8,679,433</u>

Investments are subject to market volatility that could substantially change their fair values in the near term.

Investment income (loss) is included in the consolidated statements of activities and consists of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 343,987	\$ 322,574
Realized gain (loss)	133,264	(68,587)
Unrealized gain	1,191,573	871,120
Less: Investment fees	<u>(115,450)</u>	<u>(100,321)</u>
	<u>\$ 1,553,374</u>	<u>\$ 1,024,786</u>

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, (“ASC 820”) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. These inputs also form the basis of the fair value hierarchy which is used to categorize a fair value measurement into one of three levels as follows:

- Level 1 – Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 - Valuations based on observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets for identical assets or liabilities; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3 - Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to level 3 inputs.

Investments in fixed income funds, equities and equity mutual funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Investments in corporate obligations are valued using quoted prices in inactive markets (Level 2). Level 2 instruments valuations are obtained from similar assets or model derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

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NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended December 31, 2017 and 2016, there were no transfers in or out of Levels 1 or 2.

Financial assets carried at fair value at December 31, 2017, are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
ASSETS CARRIED AT FAIR VALUE:			
Investments			
Equities	\$ 9,101,672	\$ -	\$ 9,101,672
U. S. Treasuries	20,550	-	20,550
Corporate bonds	-	<u>263,360</u>	<u>263,360</u>
	9,122,222	263,360	9,385,582
Cash and cash equivalents			
Money market funds	<u>390,090</u>	-	<u>390,090</u>
TOTAL ASSETS CARRIED AT FAIR VALUE:	<u>\$ 9,512,312</u>	<u>\$ 263,360</u>	<u>\$ 9,775,672</u>

Financial assets carried at fair value at December 31, 2016, are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
ASSETS CARRIED AT FAIR VALUE:			
Investments			
Equities	\$ 8,209,149	\$ -	\$ 8,209,149
U. S. Treasuries	156,702	-	156,702
Corporate bonds	-	<u>313,582</u>	<u>313,582</u>
	8,365,851	313,582	8,679,433
Cash and cash equivalents			
Money market funds	<u>105,643</u>	-	<u>105,643</u>
TOTAL ASSETS CARRIED AT FAIR VALUE:	<u>\$ 8,471,494</u>	<u>\$ 313,582</u>	<u>\$ 8,785,076</u>

NOTE 4 – BEQUEST FROM THE ESTATE OF ELISABETH LEWYT

In 2014, the League received a \$20 million multi-year bequest from the Estate of Elisabeth Lewyt. \$10 million of this bequest is for the Lewyt Capital Fund and \$10 million is for the Lewyt Administrative Fund (Note 7).

The bequest is due as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ -	\$ 2,000,000
	-	2,000,000
Less: discount to net present value	-	<u>(24,961)</u>
	<u>\$ -</u>	<u>\$ 1,975,039</u>

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NOTE 5 – PROPERTY AND EQUIPMENT

Fixed assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Lives</u>
Land	\$ 3,997,698	\$ 3,997,698	
Buildings and Building Improvements	14,712,217	14,386,579	10-40 years
Software	613,502	552,124	3-5 years
Furniture, Fixtures, and Equipment	2,225,069	2,043,840	5-7 years
Vehicles	2,365,958	2,467,704	5-7 years
Construction in progress	<u>1,635,218</u>	<u>811,636</u>	
	25,549,662	24,259,581	
Less accumulated depreciation and amortization	<u>(11,774,464)</u>	<u>(11,248,334)</u>	
	<u>\$ 13,775,198</u>	<u>\$ 13,011,247</u>	

Depreciation expense amounted to \$928,954 and \$837,729 for the years ended December 31, 2017 and 2016, respectively. The Organization wrote off fully depreciated assets with accumulated depreciation in the amount of \$402,824 and \$392,544 for the years ended December 31, 2017 and 2016, respectively.

Construction in progress amounted to \$1,635,218 as of December 31, 2017. \$1,172,816 is related to the Pet Wellness Center and \$462,402 is related to the Bianca's Furry Friends Wellness Center. Pet Wellness Center was completed in April 2018. Additional costs incurred in 2018 to complete the project were approximately \$1.4 million. Bianca's Furry Friends Wellness Center is expected to be completed in May 2019 and estimated costs to complete are approximately \$11.7 million.

On September 10, 2001, the League received approximately 98 acres of land, a building and improvements located in the County of Culpeper, Virginia (the "Property"), by Deed of Gift from Animal Allies, Inc. ("AAI"), a non-profit corporation, whose primary purpose is the care of animals. As indicated in the Deed, the Property will be retained forever, substantially in its current condition, as a conservancy and refuge for wildlife and unwanted domestic animals. Any changes to the Property that will significantly interfere with this purpose are prohibited. The League did not recognize any amount in the financial statements for the Property as there is no objective basis available to measure its value due to the covenants and restrictions contained in the Deed. Furthermore, the covenants and restrictions render any likely value as immaterial.

NOTE 6 – PENSION AND OTHER BENEFIT PLANS

The League had a defined benefit pension plan (the "Plan") for all eligible employees who were at least 21 years old and had 24 months of service. The benefit formula was based on years of service and compensation levels as defined in the Plan. The League's policy was to fund all amounts required to pay for the benefits based on periodic calculations by an independent "enrolled actuary." Amounts contributed to the Plan must have been at least sufficient to meet the minimum funding requirements as determined by the actuary.

On June 30, 2006, the Board of Directors of the League adopted a resolution to freeze the Plan. As of that date, no employee is permitted to commence or recommence participation in the Plan and no further benefits will accrue to any participants. In addition, compensation received on or after that date will not be considered for any purpose under the Plan.

The net periodic pension cost for the years ended December 31, 2017 and 2016, were \$564,240 and \$665,888, respectively. The Organization made \$327,781 and \$58,615 of cash contributions to the Plan during the years ended December 31, 2017 and 2016, respectively, while the Plan made \$379,943 and \$366,002 in benefit payments during the years ended December 31, 2017 and 2016, respectively. For the year ending December 31, 2018, the League expects to make contributions of approximately \$345,342 to the Plan.

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NOTE 6 – PENSION AND OTHER BENEFIT PLANS (Continued)

The funded status of the Plan as of December 31:

	<u>2017</u>	<u>2016</u>
Projected benefit obligation	\$ (12,065,100)	\$ (11,189,395)
Fair value of plan assets	<u>6,223,497</u>	<u>5,916,890</u>
Funded status	<u>\$ (5,841,603)</u>	<u>\$ (5,272,505)</u>
Accrued pension benefit obligation recognized in the Consolidated Statements of Financial Position	<u>\$ 5,841,603</u>	<u>\$ 5,272,505</u>

The components of net periodic pension cost for the pension plan for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest cost	\$ 459,288	\$ 470,372
Actual return on plan assets	(405,556)	(392,512)
Net amortization and deferral of net gain	<u>510,508</u>	<u>588,028</u>
Net periodic pension costs	<u>\$ 564,240</u>	<u>\$ 665,888</u>
Employer contributions	\$ 327,781	\$ 58,615
Benefits paid	379,943	366,002

As a frozen plan, the accumulated benefits obligation for the Plan was \$12,065,100 and \$11,189,395 as of December 31, 2017 and 2016, respectively.

Other changes in Plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Amortization of gain	\$ 510,508	\$ 588,028
New loss during the year	<u>(843,147)</u>	<u>(142,871)</u>
Net amount recognized in change in unrestricted net assets	<u>\$ (332,639)</u>	<u>\$ 445,157</u>

The weighted average and other assumptions used in the accounting for net periodic pension cost for the fiscal year ended December 31:

	<u>2017</u>	<u>2016</u>
Discount rate used for net periodic benefit cost	3.60%	4.20%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	7.0%	7.0%
Mortality table	2014-RP	2014-RP

The defined benefit plan's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

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NOTE 6 – PENSION AND OTHER BENEFIT PLANS (Continued)

The following schedule of benefit payments for the pension plan, which reflects expected future services, as appropriate, are expected to be paid:

2018	\$ 589,667
2019	587,689
2020	588,726
2021	593,896
2022	592,838
5 years thereafter	3,080,427

Pension plan assets consist of investments in various mutual funds or commingled trust funds.

Assets carried at fair value at December 31, 2017 are classified in the table as follows:

<u>Asset Strategy</u>	Level 1	Level 2	Total
Equity			
Long-Term Growth - Equity	\$ -	\$ 3,168,559	\$ 3,168,559
Fixed-Income			
Intermediate Duration	-	1,038,006	1,038,006
Long Duration	-	1,902,615	1,902,615
Cash Equivalents - Money market	<u>114,317</u>	<u>-</u>	<u>114,317</u>
Total	<u>\$ 114,317</u>	<u>\$ 6,109,180</u>	<u>\$ 6,223,497</u>

Assets carried at fair value at December 31, 2016 are classified in the table as follows:

<u>Asset Strategy</u>	Level 1	Level 2	Total
Equity			
Long-Term Growth - Equity	\$ -	\$ 2,846,521	\$ 2,846,521
Fixed-Income			
Intermediate Duration	-	1,102,366	1,102,366
Long Duration	-	1,934,093	1,934,093
Cash Equivalents - Money market	<u>33,910</u>	<u>-</u>	<u>33,910</u>
Total	<u>\$ 33,910</u>	<u>\$ 5,882,980</u>	<u>\$ 5,916,890</u>

As of plan-year end, Plan assets are invested in three diversified investment portfolios of the Pentegra Retirement Trust (the "Trust"), a private placement investment fund. The Trust has been given discretion by the Plan Sponsor to determine the appropriate strategic asset allocation versus Plan liabilities, as governed by the Trust's Investment Policy Statement. The Plan is structured to utilize a Liability Driven Investment (LDI) approach which seeks to fund the current and future liabilities of the Plan and aims to mitigate funded status and contribution volatility.

The Plan's asset allocation targets to hold 50% of assets in equity securities, 17% in intermediate-term investment grade bonds, 32% in long duration bonds, and 1% in a cash equivalents portfolio (for liquidity.)

The investment goal is to achieve investment results that will contribute to the proper funding of the pension plan by exceeding the rate of inflation over the long-term. In addition, investment managers are expected to provide above average performance when compared to their peer managers. Performance volatility is also monitored. Risk/volatility is further managed by the distinct investment objectives of each of the funds and the diversification within each fund.

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NOTE 6 – PENSION AND OTHER BENEFIT PLANS (Continued)

In 2013, in accordance with the framework and LDI Yield Trigger Glide path established by the Trustees to transition the investment policy to an LDI approach, the Plan increased its allocation to long duration bonds in four increments across the year. As a result, the Plan's asset allocation targeted 32% of total assets in long duration bonds immediately prior to the establishment of the new strategy-based asset allocation structure implemented on February 3, 2014.

The League has a 401(k) savings plan, whereby all employees may make contributions pursuant to a salary reduction agreement. Matching employer contributions are discretionary. There were no employer contributions for the years ended December 31, 2017 and 2016.

The League has a 457(b) deferred compensation plan, whereby "highly compensated employees" may make contributions pursuant to a salary reduction agreement. Pursuant to ERISA guidelines, "highly compensated employees" are defined as a select group of management or highly compensated employees. There were no employer contributions for the years ended December 31, 2017 and 2016.

NOTE 7 – NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Scholarship Fund	\$ 205,760	\$ 101,217
Mobile Van Donations	120,000	-
Bianca's Furry Friends ("BFF") Wellness Center	8,717,714	6,745,979
Rachael's Rescue	738,768	1,147,574
Pet Wellness Center	143,296	803,797
Lewyt Capital Fund	9,360,000	9,650,000
Lewyt Administration Fund	3,614,528	5,590,392
Miscellaneous programs	<u>283,534</u>	<u>116,633</u>
Total temporarily restricted net assets	<u>\$23,183,600</u>	<u>\$24,155,592</u>

For the year ended December 31, 2017, the Organization determined that \$67,363 of contributions from 2013 should have been classified as temporarily restricted based on donor restrictions. The reclassification of unrestricted net assets is reflected in the consolidated statements of activities.

Permanently restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Scholarship fund	\$ 372,889	\$ 372,889
Endowment fund	<u>190,027</u>	<u>190,027</u>
Total permanently restricted net assets	<u>\$ 562,916</u>	<u>\$ 562,916</u>

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND
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NOTE 7 – NET ASSETS (Continued)

Net assets were released from donor restrictions when expenses satisfying the restricted purposes were incurred or by occurrence of other events specified by donors as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Lewyt Administration Fund	\$ 2,000,825	\$ 2,213,389
Lewyt Capital Fund	290,000	350,000
BFF Wellness Center	284,417	413,306
Pet Wellness Center	760,502	376,508
Rachael's Rescue	742,875	201,707
Mobile Van Donations	2,949	160,220
Hurricane Grants – Rachael Ray	600,000	-
Scholarship Fund	-	38,907
Miscellaneous programs	198,686	78,710
	<u>\$ 4,880,254</u>	<u>\$ 3,832,747</u>

NOTE 8 – RELATED-PARTY TRANSACTIONS

The League and the Foundation are operated as if they were separate entities. Certain Directors of the Foundation are also Directors of the League. However, Board membership in one organization is not a condition of Board membership in the other.

It is the League's intention, at the direction of its Board, to provide support for the Foundation in its efforts to save animals around the world. During 2017 and 2016, the League made grants of \$360,000 and \$235,000, respectively, to the Foundation which has been eliminated for consolidation purposes.

NOTE 9 – JOINT COSTS

The Organization incurred joint costs of \$9,533,963 and \$9,633,851 for the years ended December 31, 2017 and 2016, respectively, for informational materials and activities that included fund-raising appeals. Of those costs, \$2,008,634 and \$2,156,410, respectively, were allocated to fund-raising expense and \$7,525,329 and \$7,477,441, respectively, were allocated to program expense.

NOTE 10 – LINE OF CREDIT

The League has a \$3,000,000 secured line of credit with Signature (the "Bank") to be drawn down upon as needed for working capital purposes. The line of credit is secured by a pledge to the Bank by the Organization of all cash and/or marketable securities on deposit in an account maintained by the League with J.P Morgan Clearing Corp. The line of credit is available through September 13, 2018. The interest rate in effect was a variable rate per annum equal to the Bank's Prime rate plus 0.25% as of December 31, 2017 and 2016. There were outstanding borrowings of \$2,499,825 and \$999,825 as of December 31, 2017 and 2016. The balance as of June 29, 2018 amounted to \$2,375,825.

NOTE 11 – CONCENTRATIONS

Cash and cash equivalents that potentially subject the Organization to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporations ("FDIC") insurance limits by approximately \$25,020,000 and \$22,880,000 as of December 31, 2017 and 2016, respectively. This excess includes outstanding checks. Cash accounts with participating banks are insured up to \$250,000 per depositor.

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NOTE 12 – ENDOWMENT FUNDS

Endowment net assets consist of donor-restricted funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. See Note 2B for how the League maintains its net assets.

The League adheres to the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). The League recognizes that NYPMIFA permits the Board of Directors to appropriate for expenditure all earnings of endowment funds (both realized and unrealized) with a presumption of prudence to a ceiling of 7% annually based on a quarterly rolling five-year average of the fair value of the endowment funds. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected in temporarily restricted net assets until appropriated.

The Organization’s endowment investment policy is to invest primarily in money market and equities securities to satisfy its overall endowment financial and investment objectives such as to preserve the principal, protect against inflation, receive stable returns and achieve long-term growth. The Organization relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Annual spending from the endowment fund for program expenses is established by the Board of Directors. Unless authorized by the Board of Directors, the appropriations from the endowment funds should not deplete the real dollar value of the endowment fund.

The League’s policy is that endowment earnings will be appropriated for expenditures in accordance with the donor’s stipulations. In the absence of donor stipulations, endowment earnings are classified as temporarily restricted net assets until appropriated for operations by the Board.

In accordance with U.S. GAAP, organizations are required to disclose any deterioration of the fair value of assets associated with donor-restricted endowment funds that fall below the level the donor requires the organization to retain in perpetuity. The Organization has not incurred such deficiencies in its endowment funds as of December 31, 2017 and 2016.

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 101,216	\$ 562,916	\$ 664,132
Investment income	104,544	-	104,544
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 205,760</u>	<u>\$ 562,916</u>	<u>\$ 768,676</u>

Changes in endowment net assets for the year ended December 31, 2016 are as follows

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 91,203	\$ 462,916	\$ 554,119
Contributions	-	100,000	100,000
Investment income	48,920	-	48,920
Appropriation of endowment assets for expenditure	<u>(38,907)</u>	<u>-</u>	<u>(38,907)</u>
Endowment net assets, end of year	<u>\$ 101,216</u>	<u>\$ 562,916</u>	<u>\$ 664,132</u>

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND
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NOTE 13 – COMMITMENTS AND CONTINGENCIES

- A. The League entered into an agreement with Direct Mail Processing Inc, (“DMP”), for the processing of its direct mail. Under the terms of the agreement, the League is not obligated to pay minimum service charges. The contract is effective through January 1, 2020.
- B. The League entered into an agreement with eBay Enterprises, which provides database processing services. Under the terms of the agreement, the League is obligated to pay minimum service charges of approximately \$56,000 per month through December 31, 2020.
- C. The Organization is subject to various claims and legal proceedings that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or changes in net assets of the Organization. Additionally, management believes that with respect to any pending or threatened litigation charges or claims against the Organization, after the Organization's deductible, the Organization has adequate insurance coverage to cover these claims.
- D. The Organization has no uncertain tax positions as of December 31, 2017 and 2016 in accordance with ASC Topic 740, “Income Taxes,” which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 14 – MUTT-I-GREES® MOVEMENT

The Mutt-i-grees® Movement is the Foundation’s largest program. A key component of the Mutt-i-grees® Movement is a multifaceted humane education program which features an innovative school curriculum, the Mutt-i-grees® Curriculum. The Curriculum, targeting children from Pre-K to high school level students has been developed, published and is being implemented in schools around the country. The Curriculum highlights humane education and shelter pets within the context of Social and Emotional Learning. Mutt-i-grees® in the Library, Cats are Mutt-i-grees® 2, The Shelter Guide to Mutt-i-grees® Curriculum, Paws Down/Tails Up: Physical Fitness Featuring Mutt-i-grees®, and Muttigrees at Home are ancillary products that have been developed. The Foundation is developing the Mutt-i-grees® Curriculum in collaboration with Yale University’s School of the 21st Century. The School of the 21st Century is under the auspices of the Yale Medical School, Child Study Center. A relative of a Board member of the Foundation is a Research Scientist at the Child Study Center.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statements of financial position through June 29, 2018, the date the financial statements were available to be issued.

**NORTH SHORE ANIMAL LEAGUE AMERICA INC. AND
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(A Non-Profit Organization)
Supplemental Information
Consolidating Schedule of Financial Position
December 31, 2017

	As of December 31, 2017			
	North Shore Animal League	Pet Savers Foundation	Consolidating Eliminations	Consolidated Total
ASSETS				
Cash and cash equivalents	\$ 2,225,450	\$ 6,521	\$ -	\$ 2,231,971
Restricted cash	23,924,440	-	-	23,924,440
Bequests receivable	471,886	-	-	471,886
Other receivables	1,511,730	53,857	(53,857)	1,511,730
Prepaid expenses and other assets	348,784	-	-	348,784
Inventory	726,507	-	-	726,507
Investments	9,385,582	-	-	9,385,582
Property and equipment, net	<u>13,774,067</u>	<u>1,131</u>	<u>-</u>	<u>13,775,198</u>
Total Assets	<u>\$ 52,368,446</u>	<u>\$ 61,509</u>	<u>\$ (53,857)</u>	<u>\$ 52,376,098</u>
LIABILITIES				
Accounts and accrued expenses payable	4,867,117	50,607	(53,857)	4,863,867
Annuity payment liability	701,785	-	-	701,785
Accrued pension benefit obligation	5,841,603	-	-	5,841,603
Line of credit	<u>2,499,825</u>	<u>-</u>	<u>-</u>	<u>2,499,825</u>
Total Liabilities	13,910,330	50,607	(53,857)	13,907,080
NET ASSETS				
Unrestricted	14,711,600	10,902	-	14,722,502
Temporarily restricted	23,183,600	-	-	23,183,600
Permanently restricted	<u>562,916</u>	<u>-</u>	<u>-</u>	<u>562,916</u>
Total Net Assets	<u>38,458,116</u>	<u>10,902</u>	<u>-</u>	<u>38,469,018</u>
Total Liabilities and Net Assets	<u>\$ 52,368,446</u>	<u>\$ 61,509</u>	<u>\$ (53,857)</u>	<u>\$ 52,376,098</u>

**NORTH SHORE ANIMAL LEAGUE AMERICA INC. AND
THE PET SAVERS FOUNDATION, INC.**
(A Non-Profit Organization)
Supplemental Information
Consolidating Schedule of Activities and Changes in Net Assets
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Year Ended December 31, 2017										
	North Shore Animal League				Pet Savers Foundation				Consolidating Eliminations	Consolidated Total	2016 Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total			
OPERATING REVENUES, GAINS AND OTHER SUPPORT:											
Special events revenue (net of direct expenses of \$78,909 and \$121,001 in 2017 and 2016, respectively)	103,675	\$ 515,738	\$ -	\$ 619,413	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 619,413	\$ 759,570
Grants	-	-	-	-	360,000	-	-	360,000	(360,000)	-	-
Bequests	3,699,311	-	-	3,699,311	-	-	-	-	-	3,699,311	5,736,816
Bequest - Estate of Elisabeth Lewyt, net	-	24,961	-	24,961	-	-	-	-	-	24,961	34,239
Contributions	21,765,746	3,184,432	-	24,950,178	10	-	-	10	-	24,950,188	25,915,934
In-kind contributions	624,881	-	-	624,881	-	-	-	-	-	624,881	738,191
Program service revenue:											
Pet Rescue and Adoption	1,403,559	11,225	-	1,414,784	-	-	-	-	-	1,414,784	1,374,060
Humane Education	32,787	-	-	32,787	-	-	-	-	-	32,787	70,942
Spay/Neuter and Veterinary Care	7,002,388	-	-	7,002,388	-	-	-	-	-	7,002,388	6,536,120
Pet Savers Foundation	-	-	-	-	16,490	-	-	16,490	-	16,490	57,377
Total program service revenue	8,438,734	11,225	-	8,449,959	16,500	-	-	16,500	-	8,466,459	8,037,599
Dividends and interest	330,527	13,460	-	343,987	-	-	-	-	-	343,987	322,574
Pet store sales (net of cost of goods sold)											
\$171,272 and \$258,195 in 2017 and 2016, respectively)	142,594	-	-	142,594	-	-	-	-	-	142,594	183,085
List rental income	409,623	-	-	409,623	-	-	-	-	-	409,623	458,704
Other revenue	42,011	-	-	42,011	-	-	-	-	-	42,011	66,421
Reclassification of unrestricted net assets	(67,363)	67,363	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	4,880,254	(4,880,254)	-	-	-	-	-	-	-	-	-
TOTAL OPERATING REVENUES, GAINS AND OTHER SUPPORT	40,369,993	(1,063,075)	-	39,306,918	376,500	-	-	376,500	(360,000)	39,323,418	42,253,133
OPERATING EXPENSES:											
Program Services											
Pet Rescue and Adoption	14,450,743	-	-	14,450,743	-	-	-	-	(36,000)	14,414,743	13,754,280
Humane Education	5,221,545	-	-	5,221,545	-	-	-	-	(288,000)	4,933,545	5,080,383
Spay/Neuter and Vet Care	14,788,675	-	-	14,788,675	-	-	-	-	(36,000)	14,752,675	15,409,358
Pet Savers Foundation	-	-	-	-	371,314	-	-	371,314	-	371,314	382,669
Total program services	34,460,963	-	-	34,460,963	371,314	-	-	371,314	(360,000)	34,472,277	34,626,690
Supporting Services:											
Management and general	1,549,217	-	-	1,549,217	3,941	-	-	3,941	-	1,553,158	1,508,214
Fundraising	5,405,590	-	-	5,405,590	372	-	-	372	-	5,405,962	5,619,912
Total supporting services	6,954,807	-	-	6,954,807	4,313	-	-	4,313	-	6,959,120	7,128,126
TOTAL OPERATING EXPENSES	41,415,770	-	-	41,415,770	375,627	-	-	375,627	(360,000)	41,431,397	41,754,816
CHANGE IN NET ASSETS FROM OPERATIONS	(1,045,777)	(1,063,075)	-	(2,108,852)	873	-	-	873	-	(2,107,979)	498,317
Net realized loss and unrealized gain on investments	1,118,304	91,083	-	1,209,387	-	-	-	-	-	1,209,387	702,212
Change in value of split-interest agreements	23,020	-	-	23,020	-	-	-	-	-	23,020	(78,041)
Pension related changes other than net periodic pension costs	(332,639)	-	-	(332,639)	-	-	-	-	-	(332,639)	445,157
CHANGE IN NET ASSETS	(237,092)	(971,992)	-	(1,209,084)	873	-	-	873	-	(1,208,211)	1,567,645
Net assets, beginning of year	14,948,692	24,155,592	562,916	39,667,200	10,029	-	-	10,029	-	39,677,229	38,109,584
NET ASSETS - END OF YEAR	\$ 14,711,600	\$ 23,183,600	\$ 562,916	\$ 38,458,116	\$ 10,902	\$ -	\$ -	\$ 10,902	\$ (360,000)	\$ 38,469,018	\$ 39,677,229