

# 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, 2016 and 2015

**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, 2016 AND 2015**

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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, 2016 and 2015, 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, 2016 and 2015, 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 15, 2017

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS FOUNDATION, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2C, 3, and 11)	\$ 1,778,694	\$ 1,675,086
Restricted cash (Note 2D)	22,259,343	19,911,846
Bequests receivable (Note 2N)	244,222	849,601
Bequests receivable - Estate of Elizabeth Lewyt, net (Notes 2N and 4)	1,975,039	3,940,800
Other receivables	1,858,006	2,550,937
Prepaid expenses and other assets	413,692	213,186
Inventory (Note 2E)	890,463	637,715
Investments (Notes 2F, 2G, and 3)	8,679,433	8,403,194
Property and equipment, net (Notes 2J and 5)	13,011,247	11,952,906
<b>TOTAL ASSETS</b>	<b>\$ 51,110,139</b>	<b>\$ 50,135,271</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 4,335,002	\$ 4,919,138
Annuity payment liability (Note 2K)	825,578	896,335
Accrued pension benefit obligation (Note 6)	5,272,505	5,110,389
Line of credit (Note 10)	999,825	1,099,825
<b>TOTAL LIABILITIES</b>	<b>11,432,910</b>	<b>12,025,687</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 13)		
<b>NET ASSETS</b> (Notes 2B and 7)		
Unrestricted		
Available for operations	1,947,474	598,028
Net investment in property and equipment	13,011,247	11,952,906
Total unrestricted	14,958,721	12,550,934
Temporarily restricted (Note 7)	24,155,592	25,095,734
Permanently restricted (Note 7)	562,916	462,916
<b>TOTAL NET ASSETS</b>	<b>39,677,229</b>	<b>38,109,584</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 51,110,139</b>	<b>\$ 50,135,271</b>

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 ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Year Ended December 31, 2016				Year Ended December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT:</b>								
Special events revenue (net of direct expenses of \$121,001 and \$122,869 in 2016 and 2015, respectively)	\$ 48,897	\$ 710,673	\$ -	\$ 759,570	\$ 614,518	\$ 19,404	\$ 595,114	\$ -
Bequests (Note 2N)	5,736,816	-	-	5,736,816	5,576,796	5,576,796	-	-
Bequest - Estate of Elisabeth Lewyt, net (Notes 2N and 4)	-	34,239	-	34,239	81,971	-	81,971	-
Contributions (Note 2L)	23,721,222	2,094,712	100,000	25,915,934	24,806,754	22,499,032	2,307,722	-
In-kind contributions (Note 2M)	738,191	-	-	738,191	678,483	678,483	-	-
Program service revenue (Note 2P):								
Pet Rescue and Adoption	1,370,000	4,060	-	1,374,060	1,245,412	1,245,412	-	-
Humane Education	70,042	-	-	70,042	29,897	29,897	-	-
Spay/Neuter & Veterinary Care	6,536,120	-	-	6,536,120	5,730,918	5,730,918	-	-
Pet Savers Foundation	57,377	-	-	57,377	75,776	75,776	-	-
Total program service revenue	8,033,539	4,060	-	8,037,599	7,082,003	7,082,003	-	-
Dividends and interest (Note 3)	311,405	11,169	-	322,574	321,455	307,882	13,573	-
Pet store sales (net of cost of goods sold of \$258,195 and \$253,969 in 2016 and 2015, respectively)	183,085	-	-	183,085	245,670	245,670	-	-
List rental income	458,704	-	-	458,704	619,451	619,451	-	-
Other revenue	66,421	-	-	66,421	45,530	45,530	-	-
Net assets released from restrictions	3,832,747	(3,832,747)	-	-	-	3,003,748	(3,003,748)	-
<b>TOTAL OPERATING REVENUES, GAINS AND OTHER SUPPORT</b>	<b>43,131,027</b>	<b>(977,894)</b>	<b>100,000</b>	<b>42,253,133</b>	<b>40,072,631</b>	<b>40,077,999</b>	<b>(5,368)</b>	<b>-</b>
<b>OPERATING EXPENSES:</b>								
Program Services								
Pet Rescue and Adoption	13,754,280	-	-	13,754,280	13,206,476	13,206,476	-	-
Humane Education	5,080,383	-	-	5,080,383	5,070,869	5,070,869	-	-
Spay/Neuter and Vet Care	15,409,358	-	-	15,409,358	14,313,588	14,313,588	-	-
Pet Savers Foundation	382,669	-	-	382,669	304,462	304,462	-	-
Total program services	34,626,690	-	-	34,626,690	32,895,395	32,895,395	-	-
Supporting Services:								
Management and general	1,508,214	-	-	1,508,214	1,451,034	1,451,034	-	-
Fundraising	5,619,912	-	-	5,619,912	5,468,636	5,468,636	-	-
Total supporting services	7,128,126	-	-	7,128,126	6,919,670	6,919,670	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>41,754,816</b>	<b>-</b>	<b>-</b>	<b>41,754,816</b>	<b>39,815,065</b>	<b>39,815,065</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>1,376,211</b>	<b>(977,894)</b>	<b>100,000</b>	<b>498,317</b>	<b>257,566</b>	<b>262,934</b>	<b>(5,368)</b>	<b>-</b>
Net realized gain and unrealized loss on investments (Note 3)	664,460	37,752	-	702,212	(731,435)	(650,825)	(80,610)	-
Change in value of split-interest agreements (Note 2K)	(78,041)	-	-	(78,041)	(122,013)	(122,013)	-	-
Pension related changes other than net periodic pension costs (Note 6)	445,157	-	-	445,157	1,111,065	1,111,065	-	-
<b>CHANGE IN NET ASSETS</b>	<b>2,407,787</b>	<b>(940,142)</b>	<b>100,000</b>	<b>1,567,645</b>	<b>515,183</b>	<b>601,161</b>	<b>(85,978)</b>	<b>-</b>
<b>Net assets, beginning of year</b>	<b>12,550,934</b>	<b>25,095,734</b>	<b>462,916</b>	<b>38,109,584</b>	<b>37,594,401</b>	<b>11,949,773</b>	<b>25,181,712</b>	<b>462,916</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 14,958,721</b>	<b>\$ 24,155,592</b>	<b>\$ 562,916</b>	<b>\$ 39,677,229</b>	<b>\$ 38,109,584</b>	<b>\$ 12,550,934</b>	<b>\$ 25,095,734</b>	<b>\$ 462,916</b>

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, 2016  
(With Comparative Totals for 2015)

	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	Total 2015
Salaries	\$ 4,362,200	\$ 1,551,026	\$ 6,009,053	\$ -	\$ 11,922,279	\$ 489,632	\$ 1,169,431	\$ 1,659,063	\$ 13,581,342	\$ 12,794,431
Payroll taxes and employee benefits	1,919,142	687,761	2,567,121	-	5,174,024	236,722	533,786	770,508	5,944,532	5,429,734
<b>Salaries and Related Costs</b>	6,281,342	2,238,787	8,576,174	-	17,096,303	726,354	1,703,217	2,429,571	19,525,874	18,224,165
Grants to other organizations	5,400	8,200	400	-	14,000	-	-	-	14,000	20,849
Professional fees	109,907	94,159	217,398	353,519	774,983	142,453	308,899	451,352	1,226,335	1,193,948
Advertising and promotion	322,567	113,551	127,098	-	563,216	-	105,177	105,177	668,393	632,175
Office expenses	292,140	141,663	274,724	4,351	712,878	195,389	203,811	399,200	1,112,078	1,054,969
Occupancy	92,652	46,326	92,652	-	231,630	77,210	77,210	154,420	386,050	404,358
Information technology	296,704	128,037	188,880	18,678	632,299	21,881	156,662	178,543	810,842	716,633
Travel	176,240	42,569	26,890	-	245,699	97	17,118	17,215	262,914	306,157
Conferences	2,119	2,995	1,141	-	6,255	-	3,530	3,530	9,785	12,443
Interest	-	-	-	-	-	77,441	-	77,441	77,441	47,058
Insurance	66,940	33,470	66,940	-	167,350	55,784	55,784	111,568	278,918	240,919
Direct response expenses	-	-	-	-	-	-	2,665,776	2,665,776	2,665,776	2,664,334
Program education materials	3,877,137	1,610,604	2,329,695	-	7,817,436	-	-	-	7,817,436	7,778,330
Animal rescue, adoption & medical	1,789,662	472,251	3,186,303	-	5,448,216	9,157	17,639	26,796	5,475,012	5,192,750
Events and public relations	179,570	10,628	15,346	-	205,544	-	42,287	42,287	247,831	219,051
Depreciation (Note 5)	200,593	100,296	200,593	1,829	503,311	167,161	167,257	334,418	837,729	773,413
Bad debt expense	6,800	4,000	29,200	-	40,000	-	-	-	40,000	45,000
All other expenses	54,507	32,847	75,924	4,292	167,570	35,287	95,545	130,832	298,402	288,513
<b>Subtotal</b>	7,472,938	2,841,596	6,833,184	382,669	17,530,387	781,860	3,916,695	4,698,555	22,228,942	21,590,900
<b>TOTAL EXPENSES</b>	<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>	<u>\$ 39,815,065</u>

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	For the Year Ended December 31, 2015								
	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 2015
Salaries	\$ 4,146,911	\$ 1,623,985	\$ 5,417,107	\$ -	\$ 11,188,003	\$ 501,887	\$ 1,104,541	\$ 1,606,428	\$ 12,794,431
Payroll taxes and employee benefits	<u>1,748,762</u>	<u>697,928</u>	<u>2,258,228</u>	<u>-</u>	<u>4,704,918</u>	<u>237,830</u>	<u>486,986</u>	<u>724,816</u>	<u>5,429,734</u>
<b>Salaries and Related Costs</b>	5,895,673	2,321,913	7,675,335	-	15,892,921	739,717	1,591,527	2,331,244	18,224,165
Grants to other organizations	8,485	11,879	485	-	20,849	-	-	-	20,849
Professional fees	93,607	92,652	267,961	258,687	712,907	147,904	333,137	481,041	1,193,948
Advertising and promotion	301,903	104,801	124,077	-	530,781	-	101,394	101,394	632,175
Office expenses	295,217	114,275	261,265	4,602	675,359	173,776	205,834	379,610	1,054,969
Occupancy	97,046	48,522	97,046	-	242,614	80,872	80,872	161,744	404,358
Information technology	256,259	112,038	163,110	31,409	562,816	18,691	135,126	153,817	716,633
Travel	213,568	42,649	32,241	1,558	290,016	362	15,779	16,141	306,157
Conferences	4,015	3,190	1,572	-	8,777	-	3,666	3,666	12,443
Interest	-	-	-	-	-	47,058	-	47,058	47,058
Insurance	57,821	28,910	57,820	-	144,551	48,184	48,184	96,368	240,919
Direct response expenses	-	-	-	-	-	-	2,664,334	2,664,334	2,664,334
Program education materials	3,858,196	1,601,273	2,318,861	-	7,778,330	-	-	-	7,778,330
Animal rescue, adoption & medical	1,703,229	448,662	3,011,720	-	5,163,611	9,246	19,893	29,139	5,192,750
Events and public relations	179,129	9,418	13,747	-	202,294	-	16,757	16,757	219,051
Depreciation (Note 5)	183,605	91,802	183,605	7,973	466,985	153,004	153,424	306,428	773,413
Bad debt expense	4,500	4,500	36,000	-	45,000	-	-	-	45,000
All other expenses	<u>54,223</u>	<u>34,385</u>	<u>68,743</u>	<u>233</u>	<u>157,584</u>	<u>32,220</u>	<u>98,709</u>	<u>130,929</u>	<u>288,513</u>
<b>Subtotal</b>	<u>7,310,803</u>	<u>2,748,956</u>	<u>6,638,253</u>	<u>304,462</u>	<u>17,002,474</u>	<u>711,317</u>	<u>3,877,109</u>	<u>4,588,426</u>	<u>21,590,900</u>
<b>TOTAL EXPENSES</b>	<u>\$ 13,206,476</u>	<u>\$ 5,070,869</u>	<u>\$ 14,313,588</u>	<u>\$ 304,462</u>	<u>\$ 32,895,395</u>	<u>\$ 1,451,034</u>	<u>\$ 5,468,636</u>	<u>\$ 6,919,670</u>	<u>\$ 39,815,065</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, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,567,645	\$ 515,183
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	837,729	773,413
Change in value of split interest agreements	78,041	122,013
Bad debt expense	40,000	45,000
Net realized and unrealized (gain) loss on investments	(702,212)	731,435
Subtotal	1,821,203	2,187,044
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Bequests receivable	605,379	(326,384)
Bequest receivable - Estate of Elisabeth Lewyt, net	1,965,761	1,918,029
Contributions receivable	-	30,000
Other receivables	652,931	(1,075,278)
Inventory	(252,748)	(375,706)
Prepaid expenses and other assets	(200,506)	(52,276)
Increase (decrease) in liabilities:		
Accounts and accrued expenses payable	(584,136)	513,436
Annuity payment liability	(148,798)	(153,521)
Accrued pension benefit obligation	162,116	(803,207)
<b>Net Cash Provided by Operating Activities</b>	<b>4,021,202</b>	<b>1,862,137</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Restrictions placed on cash	(2,347,497)	(1,050,937)
Proceeds from sales of investments	2,987,637	3,848,429
Purchases of investments	(2,561,664)	(3,658,673)
Purchases of property and equipment	(1,896,070)	(1,293,855)
<b>Net Cash Used in Investing Activities</b>	<b>(3,817,594)</b>	<b>(2,155,036)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments under capital lease obligation	-	(8,796)
Proceeds from long-term debt	2,700,000	1,400,000
Principal repayments of long-term debt	(2,800,000)	(1,600,000)
<b>Net Cash Used in Financing Activities</b>	<b>(100,000)</b>	<b>(208,796)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>103,608</b>	<b>(501,695)</b>
Cash and cash equivalents - beginning of year	1,675,086	2,176,781
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 1,778,694</b>	<b>\$ 1,675,086</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 77,441	\$ 47,058

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, 2016 AND 2015**

**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. ***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 \$24,155,592 and \$25,095,734 as of December 31, 2016 and 2015, respectively.

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 and \$462,916 as of December 31, 2016 and 2015.

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

- C. **Cash and Cash Equivalents** – The Organization considers highly liquid investments purchased with maturities of three months or less to be cash and cash equivalents.
- D. **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.
- E. **Inventory** – Inventory consists of food, drugs and other pet supplies. Inventory is valued at the lower of cost or market.
- F. **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.
- G. **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.
- H. **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.
- I. **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, 2016 and 2015, there was an allowance for doubtful accounts recorded of \$68,901 and \$82,598, respectively.
- J. **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.
- K. **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 loss of \$78,041 and \$122,013, respectively for the years ended December 31, 2016 and 2015, 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.

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

- L. **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.
- M. **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 \$738,191 and \$678,483 for the years ended December 31, 2016 and 2015, 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.
- N. **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.
- O. **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.
- P. **Services Fees** - Revenues from service fees are recognized in the accounting period in which the services are provided.
- Q. **Advertising** - Advertising fees are expensed as incurred.

**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equities	\$ 8,209,149	\$ 7,718,294
U.S. Treasuries	156,702	272,354
Corporate Bonds	<u>313,582</u>	<u>412,546</u>
	<u>\$ 8,679,433</u>	<u>\$ 8,403,194</u>

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

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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

Investment income (loss) is included in the consolidated statements of activities and consists of the following for the years ended December 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 322,574	\$ 321,455
Realized loss	(68,587)	(525,312)
Unrealized gain (loss)	<u>770,799</u>	<u>(206,123)</u>
	<u>\$ 1,024,786</u>	<u>\$ (409,980)</u>

Investment fees amounted to \$100,321 and \$107,812 for the years ended December 31, 2016 and 2015, respectively, and are included under investment income in the accompanying statements of activities.

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.

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, 2016 and 2015, there were no transfers in or out of Levels 1 or 2.

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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

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>
<b>ASSETS CARRIED AT FAIR VALUE:</b>			
<b>Investments</b>			
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
<b>Cash and cash equivalents</b>			
Money market funds	<u>105,643</u>	-	<u>105,643</u>
<b>TOTAL ASSETS CARRIED AT FAIR VALUE:</b>	<u>\$ 8,471,494</u>	<u>\$ 313,582</u>	<u>\$ 8,785,076</u>

Financial assets carried at fair value at December 31, 2015, are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>ASSETS CARRIED AT FAIR VALUE:</b>			
<b>Investments</b>			
Equities	\$ 7,718,294	\$ -	\$ 7,718,294
U. S. Treasuries	272,354	-	272,354
Corporate bonds	-	<u>412,546</u>	<u>412,546</u>
	7,990,648	412,546	8,403,194
<b>Cash and cash equivalents</b>			
Money market funds	<u>176,865</u>	-	<u>176,865</u>
<b>TOTAL ASSETS CARRIED AT FAIR VALUE:</b>	<u>\$ 8,167,513</u>	<u>\$ 412,546</u>	<u>\$ 8,580,059</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 2,000,000	\$ 2,000,000
Due within two to five years	-	<u>2,000,000</u>
	2,000,000	4,000,000
Less: discount to net present value	<u>(24,961)</u>	<u>(59,200)</u>
	<u>\$ 1,975,039</u>	<u>\$ 3,940,800</u>

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**NOTE 5 – PROPERTY AND EQUIPMENT**

Fixed assets consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Lives</u>
Land	\$ 3,997,698	\$ 3,997,698	
Buildings and Building Improvements	14,386,579	13,459,956	10-40 years
Software	552,124	472,554	3-5 years
Furniture, Fixtures, and Equipment	2,043,840	1,526,091	5-7 years
Vehicles	2,467,704	2,312,279	5-7 years
Construction in progress	<u>811,636</u>	<u>987,477</u>	
	24,259,581	22,756,055	
Less accumulated depreciation and amortization	<u>(11,248,334)</u>	<u>(10,803,149)</u>	
	<u>\$ 13,011,247</u>	<u>\$ 11,952,906</u>	

Depreciation expense amounted to \$837,729 and \$773,413 for the years ended December 31, 2016 and 2015, respectively. The Organization wrote off fully depreciated assets with accumulated depreciation in the amount of \$392,544 and \$838,368 for the years ended December 31, 2016 and 2015, respectively.

Construction in progress amounted to \$811,636 as of December 31, 2016. \$421,774 is related to the Pet Wellness Center and \$389,862 is related to the Bianca's Furry Friends Wellness Center. Pet Wellness Center is expected to be completed in July 2017 and estimated costs to complete are approximately \$511,000. Bianca's Furry Friends Wellness Center is expected to be completed in December 2018 and estimated costs to complete are approximately \$10 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, 2016 and 2015, were \$665,888 and \$820,998, respectively. The Organization made \$58,615 and \$513,130 of cash contributions to the Plan during the years ended December 31, 2016 and 2015, respectively, while the Plan made \$366,002 and \$378,511 in benefit payments during the years ended December 31, 2016 and 2015, respectively. For the year ending December 31, 2017, the League expects to make contributions of approximately \$261,495 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Projected benefit obligation	\$ (11,189,395)	\$ (10,949,713)
Fair value of plan assets	<u>5,916,890</u>	<u>5,839,324</u>
Funded status	<u>\$ (5,272,505)</u>	<u>\$ (5,110,389)</u>
Accrued pension benefit obligation recognized in the Consolidated Statements of Financial Position	<u>\$ 5,272,505</u>	<u>\$ 5,110,389</u>

The components of net periodic pension cost for the pension plan for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Interest cost	\$ 470,372	\$ 474,324
Actual return on plan assets	(392,512)	(423,512)
Net amortization and deferral of net gain	<u>588,028</u>	<u>770,176</u>
Net periodic pension costs	<u>\$ 665,888</u>	<u>\$ 820,988</u>
Employer contributions	\$ 58,615	\$ 513,130
Benefits paid	366,002	378,511

As a frozen plan, the accumulated benefits obligation for the Plan was \$11,189,395 and \$10,949,713 as of December 31, 2016 and 2015, respectively.

Other changes in Plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Amortization of gain	\$ 588,028	\$ 770,176
New gain/(loss) during the year	<u>(142,871)</u>	<u>340,889</u>
Net amount recognized in change in unrestricted net assets	<u>\$ 445,157</u>	<u>\$ 1,111,065</u>

The weighted average and other assumptions used in the accounting for net periodic pension cost for the fiscal year ended December 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate used for net periodic benefit cost	4.20%	4.40%
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:

2017	\$ 507,957
2018	543,182
2019	563,182
2020	561,973
2021	563,246
5 years thereafter	2,882,385

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

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

<b><u>Asset Category</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Total</u></b>
Mutual Funds-Equity			
Large-Cap Value	\$ -	\$ 565,276	\$ 565,276
Large-Cap Growth	-	507,720	507,720
Large-Cap Core	-	359,444	359,444
Mid-Cap Value	-	120,391	120,391
Mid-Cap Growth	-	109,542	109,542
Mid Cap Core	-	123,252	123,252
Small-Cap Value	-	98,561	98,561
Small-Cap Growth	-	82,685	82,685
Small-Cap Core	-	184,228	184,228
International Core	-	667,429	667,429
Fixed Income Funds			
Fixed Income – US Core	-	815,437	815,437
Intermediate Duration	-	1,198,953	1,198,953
Long Duration	-	967,251	967,251
Cash Equivalents - Money market	<u>33,910</u>	<u>82,811</u>	<u>116,721</u>
<b>Total</b>	<b><u>\$ 33,910</u></b>	<b><u>\$ 5,882,980</u></b>	<b><u>\$ 5,916,890</u></b>

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**NOTE 6 – PENSION AND OTHER BENEFIT PLANS (Continued)**

Assets carried at fair value at December 31, 2015 are classified in the table as follows:

<b><u>Asset Category</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Total</u></b>
Mutual Funds-Equity			
Large-Cap Value	\$ -	\$ 436,848	\$ 436,848
Large-Cap Growth	-	491,627	491,627
Large-Cap Core	-	319,900	319,900
Mid-Cap Value	-	104,021	104,021
Mid-Cap Growth	-	102,196	102,196
Mid Cap Core	-	101,667	101,667
Small-Cap Value	-	74,529	74,529
Small-Cap Growth	-	73,727	73,727
Small-Cap Core	-	149,715	149,715
International Core	-	625,403	625,403
Fixed Income Funds	-	834,322	834,322
Intermediate Duration	-	1,341,846	1,341,846
Long Duration	-	1,067,267	1,067,267
Cash Equivalents - Money market	<u>31,299</u>	<u>84,957</u>	<u>116,256</u>
<b>Total</b>	<b><u>\$ 31,299</u></b>	<b><u>\$ 5,808,025</u></b>	<b><u>\$ 5,839,324</u></b>

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.

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, 2016 and 2015.

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, 2016 and 2015.

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**NOTE 7 – NET ASSETS**

Temporarily restricted net assets consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Scholarship Fund	\$ 101,217	\$ 91,203
Mobile Van Donations	-	138,169
Bianca's Furry Friends ("BFF") Wellness Center	6,745,979	5,513,316
Rachael's Rescue	1,147,574	1,349,282
Pet Wellness Center	803,797	186,046
Lewyt Capital Fund	9,650,000	10,000,000
Lewyt Administration Fund	5,590,392	7,769,542
Miscellaneous programs	<u>116,633</u>	<u>48,176</u>
Total temporarily restricted net assets	<u>\$24,155,592</u>	<u>\$25,095,734</u>

Permanently restricted net assets consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Scholarship fund	\$ 372,889	\$ 372,889
Endowment fund	<u>190,027</u>	<u>90,027</u>
Total permanently restricted net assets	<u>\$ 562,916</u>	<u>\$ 462,916</u>

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Lewyt Administration Fund	\$ 2,213,389	\$ 1,660,445
Lewyt Capital Fund	350,000	-
Special Recovery Center	-	622,875
BFF Wellness Center	413,306	296,138
Pet Wellness Center	376,508	-
Rachael's Rescue	201,707	40,061
Mobile Van Donations	160,220	152,865
Scholarship Fund	38,907	92,749
Miscellaneous programs	<u>78,710</u>	<u>138,615</u>
	<u>\$ 3,832,747</u>	<u>\$ 3,003,748</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 2016 and 2015, the League made grants of \$325,000 and \$235,000, respectively, to the Foundation which has been eliminated for consolidation purposes.

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**NOTE 9 – JOINT COSTS**

The Organization incurred joint costs of \$9,633,851 and \$9,548,857 for the years ended December 31, 2016 and 2015, respectively, for informational materials and activities that included fund-raising appeals. Of those costs, \$2,156,410 and \$2,139,362, respectively, were allocated to fund-raising expense and \$7,477,441 and \$7,409,495, respectively, were allocated to program.

**NOTE 10 – LINE OF CREDIT**

As of September 17, 2014, the League has a \$2,500,000 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, 2017. 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, 2016 and 2015. There were outstanding borrowings of \$999,825 and \$1,099,825 as of December 31, 2016 and 2015. The balance as of June 15, 2017 amounted to \$999,825.

**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 \$22,880,000 and \$20,773,000 as of December 31, 2016 and 2015, respectively. This excess includes outstanding checks. Cash accounts with participating banks are insured up to \$250,000 per depositor.

**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, 2016 and 2015.

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND  
THE PET SAVERS FOUNDATION, INC  
DECEMBER 31, 2016 AND 2015**

**NOTE 12 – ENDOWMENT FUNDS (Continued)**

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>

Changes in endowment net assets for the year ended December 31, 2015 are as follows

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ 250,990	\$ 462,916	\$ 713,906
Investment income	(67,038)	-	(67,038)
Appropriation of endowment assets for expenditure	<u>(92,749)</u>	<u>-</u>	<u>(92,749)</u>
Endowment net assets, end of year	<u>\$ 91,203</u>	<u>\$ 462,916</u>	<u>\$ 554,119</u>

**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, 2016 and 2015 in accordance with ASC Topic 740, “Income Taxes,” which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND  
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**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. An ancillary product for young special needs students has been developed, along with four additional products: Mutt-i-grees® in the Library; Cats are Mutt-i-grees® 2; The Shelter Guide to the Mutt-i-grees® Curriculum; and Paws Down/Tails Up: Physical Fitness Featuring Mutt-i-grees®. The Foundation is developing the Mutt-i-grees® Curriculum in collaboration with Yale University's School of the 21<sup>st</sup> Century. The School of the 21<sup>st</sup> 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 15, 2017, the date the financial statements were available to be issued.

**NORTH SHORE ANIMAL LEAGUE AMERICA INC. AND  
THE PET SAVERS FOUNDATION, INC.**  
(A Non-Profit Organization)  
Supplemental Information  
Consolidating Schedule of Financial Position  
December 31, 2016

	As of December 31, 2016			
	North Shore Animal League	Pet Savers Foundation	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,749,485	\$ 29,209	\$ -	\$ 1,778,694
Restricted cash	22,259,343	-	-	22,259,343
Bequests receivable	244,222	-	-	244,222
Bequests receivable - Estate of Elizabeth Lewyt, net	1,975,039	-	-	1,975,039
Other receivables	1,878,702	8,345	(29,041)	1,858,006
Prepaid expenses and other assets	413,692	-	-	413,692
Inventory	890,463	-	-	890,463
Investments	8,679,433	-	-	8,679,433
Property and equipment, net	13,008,587	2,660	-	13,011,247
Total Assets	\$ 51,098,966	\$ 40,214	\$ (29,041)	\$ 51,110,139
<b>LIABILITIES</b>				
Accounts and accrued expenses payable	4,333,858	30,185	(29,041)	4,335,002
Annuity payment liability	825,578	-	-	825,578
Accrued pension benefit obligation	5,272,505	-	-	5,272,505
Line of credit	999,825	-	-	999,825
Total Liabilities	11,431,766	30,185	(29,041)	11,432,910
<b>NET ASSETS - UNRESTRICTED</b>				
Unrestricted	14,948,692	10,029	-	14,958,721
Temporarily restricted	24,155,592	-	-	24,155,592
Permanently restricted	562,916	-	-	562,916
Total Net Assets	39,667,200	10,029	-	39,677,229
Total Liabilities and Net Assets	\$ 51,098,966	\$ 40,214	\$ (29,041)	\$ 51,110,139

**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, 2016  
(With Comparative Totals for 2015)

	Year Ended December 31, 2016										
	North Shore Animal League				Pet Savers Foundation				Consolidating Eliminations	Consolidated Total	2015 Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total			
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT:</b>											
Special events revenue (net of direct expenses of \$121,001 and \$122,869 in 2016 and 2015, respectively)	\$ 48,897	\$ 710,673	\$ -	\$ 759,570	\$ -	\$ 325,000	\$ -	\$ 325,000	\$ (325,000)	\$ 759,570	\$ 614,518
Grants	-	-	-	-	-	-	-	-	-	-	-
Bequests	5,736,816	-	-	5,736,816	-	-	-	-	-	5,736,816	5,576,796
Bequest - Estate of Elisabeth Lewyt, net	-	34,239	-	34,239	-	-	-	-	-	34,239	81,971
Contributions	23,721,187	2,094,712	100,000	25,915,899	35	-	-	35	-	25,915,934	24,806,754
In-kind contributions	738,191	-	-	738,191	-	-	-	-	-	738,191	678,483
Program service revenue:											
Pet Rescue and Adoption	1,370,000	4,060	-	1,374,060	-	-	-	-	-	1,374,060	1,245,412
Humane Education	70,042	-	-	70,042	-	-	-	-	-	70,042	29,897
Spay/Neuter and Veterinary Care	6,536,120	-	-	6,536,120	-	-	-	-	-	6,536,120	5,730,918
Pet Savers Foundation	-	-	-	-	57,377	-	-	57,377	-	57,377	75,776
Total program service revenue	7,976,162	4,060	-	7,980,222	57,377	-	-	57,377	-	8,037,599	7,082,003
Dividends and interest	311,405	11,169	-	322,574	-	-	-	-	-	322,574	321,455
Pet store sales (net of cost of goods sold of \$258,195 and \$253,969 in 2016 and 2015, respectively)	183,085	-	-	183,085	-	-	-	-	-	183,085	245,670
List rental income	458,704	-	-	458,704	-	-	-	-	-	458,704	619,451
Other revenue	66,421	-	-	66,421	-	-	-	-	-	66,421	45,530
Net assets released from restrictions	3,832,747	(3,832,747)	-	-	325,000	(325,000)	-	-	-	-	-
<b>TOTAL OPERATING REVENUES, GAINS AND OTHER SUPPORT</b>	<b>43,073,615</b>	<b>(977,894)</b>	<b>100,000</b>	<b>42,195,721</b>	<b>382,412</b>	<b>-</b>	<b>-</b>	<b>382,412</b>	<b>(325,000)</b>	<b>42,253,133</b>	<b>40,072,631</b>
<b>OPERATING EXPENSES:</b>											
Program Services											
Pet Rescue and Adoption	13,786,780	-	-	13,786,780	-	-	-	-	(32,500)	13,754,280	13,229,976
Humane Education	5,340,383	-	-	5,340,383	-	-	-	-	(260,000)	5,080,383	5,258,869
Spay/Neuter and Vet Care	15,441,858	-	-	15,441,858	-	-	-	-	(32,500)	15,409,358	14,337,088
Pet Savers Foundation	-	-	-	-	382,669	-	-	382,669	-	382,669	304,462
Total program services	34,569,021	-	-	34,569,021	382,669	-	-	382,669	(325,000)	34,626,690	33,130,395
Supporting Services:											
Management and general	1,504,451	-	-	1,504,451	3,763	-	-	3,763	-	1,508,214	1,451,034
Fundraising	5,619,466	-	-	5,619,466	446	-	-	446	-	5,619,912	5,468,636
Total supporting services	7,123,917	-	-	7,123,917	4,209	-	-	4,209	-	7,128,126	6,919,670
<b>TOTAL OPERATING EXPENSES</b>	<b>41,692,938</b>	<b>-</b>	<b>-</b>	<b>41,692,938</b>	<b>386,878</b>	<b>-</b>	<b>-</b>	<b>386,878</b>	<b>(325,000)</b>	<b>41,754,816</b>	<b>39,815,065</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>1,380,677</b>	<b>(977,894)</b>	<b>100,000</b>	<b>502,783</b>	<b>(4,466)</b>	<b>-</b>	<b>-</b>	<b>(4,466)</b>	<b>-</b>	<b>498,317</b>	<b>257,566</b>
Net realized loss and unrealized gain on investments	664,460	37,752	-	702,212	-	-	-	-	-	702,212	(731,435)
Change in value of split-interest agreements	(78,041)	-	-	(78,041)	-	-	-	-	-	(78,041)	(122,013)
Pension related changes other than net periodic pension costs	445,157	-	-	445,157	-	-	-	-	-	445,157	1,111,065
<b>CHANGE IN NET ASSETS</b>	<b>2,412,253</b>	<b>(940,142)</b>	<b>100,000</b>	<b>1,572,111</b>	<b>(4,466)</b>	<b>-</b>	<b>-</b>	<b>(4,466)</b>	<b>-</b>	<b>1,567,645</b>	<b>515,183</b>
Net assets, beginning of year	12,536,439	25,095,734	462,916	38,095,089	14,495	-	-	14,495	-	38,109,584	37,594,401
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 14,948,692</b>	<b>\$ 24,155,592</b>	<b>\$ 562,916</b>	<b>\$ 39,667,200</b>	<b>\$ 10,029</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,029</b>	<b>\$ (325,000)</b>	<b>\$ 39,677,229</b>	<b>\$ 38,109,584</b>