

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS
FOUNDATION, INC.
(A Non-Profit Organization)**

Consolidated Financial Statements

December 31, 2010



LEBENHART, SECKENDORF, HASSON, & REILLY CPA'S, LLC

ELIOT H. LEBENHART, CPA
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BRUCE S. SECKENDORF, CPA
ROBERT P. REILLY, CPA

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 statements of financial position of North Shore Animal League America, Inc. (A Non-Profit Organization) and The Pet Savers Foundation, Inc. (an affiliated Non-Profit Organization) (collectively, the "Organization") as of December 31, 2010, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2010, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made 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 19 and 20 is not a required part of the basic consolidated financial statements and is the responsibility of management and is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Lebenhart, Seckendorf, Hasson & Reilly CPA'S LLC

July 27, 2011

**NORTH SHORE ANIMAL LEAGUE INC. AND
THE PET SAVERS FOUNDATION, INC.
(A Non-Profit Organization)**

Consolidated Statements of Financial Position

As of December 31, 2010

ASSETS

Cash and cash equivalents	\$ 4,742,429
Bequests receivable	873,872
Contributions receivable	25,075
Other receivables	2,750
Land, buildings and equipment	11,538,023
Other assets and prepaid expenses	2,712,357
Investments	<u>5,421,352</u>
 Total Assets	 <u><u>\$ 25,315,858</u></u>

LIABILITIES

Accounts and accrued expenses payable	\$ 2,832,524
Annuity payment liability	1,409,511
Accrued pension benefit obligation	<u>2,795,133</u>
 Total Liabilities	 <u>7,037,168</u>

NET ASSETS

Unrestricted	16,342,778
Temporarily restricted	1,472,996
Permanently restricted	<u>462,916</u>
 Total Net Assets	 <u>18,278,690</u>
 Total Liabilities and Net Assets	 <u><u>\$ 25,315,858</u></u>

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

**NORTH SHORE ANIMAL LEAGUE INC. AND
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Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Consolidated Total</u>
REVENUES, INVESTMENT INCOME AND OTHER SUPPORT				
Contributions	\$ 21,761,056	\$ 261,818	\$ 10,000	\$ 22,032,874
Bequests	4,659,513	-	-	4,659,513
Program service revenue	4,195,794	-	-	4,195,794
Dividends and interest	108,619	10,723	-	119,342
List rental income	833,390	-	-	833,390
Other revenue	81,413	-	-	81,413
Net assets released from restrictions:				
Satisfaction of program restrictions	645,949	(645,949)	-	-
Total Revenues, Investment Income and Other Support	<u>32,285,734</u>	<u>(373,408)</u>	<u>10,000</u>	<u>31,922,326</u>
EXPENSES				
Program services	24,594,097	-	-	24,594,097
Fundraising	5,102,252	-	-	5,102,252
Management and general	1,157,524	-	-	1,157,524
Total Operating Expenses	<u>30,853,873</u>	<u>-</u>	<u>-</u>	<u>30,853,873</u>
Change in Net Assets from Operations	1,431,861	(373,408)	10,000	1,068,453
Net realized and unrealized gain on investments	521,598	82,419	-	604,017
Change in value of split-interest agreements	(127,238)	-	-	(127,238)
Pension related changes other than net periodic pension costs	(760,388)	-	-	(760,388)
Change in Net Assets	1,065,833	(290,989)	10,000	784,844
Net Assets at Beginning of Year	15,276,945	1,763,985	452,916	17,493,846
Net Assets at End of Year	<u>\$ 16,342,778</u>	<u>\$ 1,472,996</u>	<u>\$ 462,916</u>	<u>\$ 18,278,690</u>

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

**NORTH SHORE ANIMAL LEAGUE INC. AND
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Consolidated Statements of Cash Flows

Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 784,844
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized loss on investments	(604,017)
Depreciation	682,963
Increase (decrease) in cash flows due to changes in operating assets and liabilities:	
Bequests receivable	(191,264)
Contributions receivable	174,925
Other receivables	(2,750)
Other assets and prepaid expenses	48,613
Accounts payable and accrued expenses	(487,498)
Annuity payment liability	(23,351)
Pension benefit obligation	<u>916,237</u>
Net Cash Provided by Operating Activities	<u>1,298,702</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales of investments	1,197,353
Purchase of investments	(3,784,913)
Purchase of equipment	<u>(474,465)</u>
Net Cash Used by Investing Activities	<u>(3,062,025)</u>
Net Decrease in Cash and Cash Equivalents	(1,763,323)
Cash and Cash Equivalents at Beginning of Year	<u>6,505,752</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,742,429</u>

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

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS
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Notes to Consolidated Financial Statements

NOTE 1: ORGANIZATION AND TAX STATUS

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 operates the American Mutt-i-grees® Club, 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 17.

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) Principles of Accounting and Basis of Presentation

The accompanying consolidated financial statements include all accounts of the Organization and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America which include some specialized requirements set forth in publications of the Financial Accounting Standards Board.

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Notes to Consolidated Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Organization maintains its accounts in accordance with the following net asset groups:

Unrestricted Net Assets - represents resources available for support of the Organization's operations over which the Board of Directors has discretionary control.

Temporarily Restricted Net Assets - resulting from contributions and other inflows of assets subject to donor imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reported in the consolidated statement of activities as net assets released from restrictions. The Organization reports restricted contributions whose stipulations were met in the same year as unrestricted contributions.

Permanently Restricted Net Assets - represents those resources subject to donor imposed stipulations that should be maintained intact in perpetuity

b) Consolidation

The consolidated financial statements include accounts of the League and the Foundation. Upon consolidation, all significant intercompany balances and transactions are eliminated.

c) Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

The Organization records "in-kind" support related to contributed pet food at its estimated fair value. The amounts reflected as "in-kind" support are offset by like amounts included in program expenses. The League does not recognize any "in-kind" support for advertising since the amounts can't be measured with sufficient reliability.

d) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with financial institutions and highly liquid money market funds.

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Notes to Consolidated Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Investments

The Organization reports its investments at fair value.

f) Fair Value Measurements

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 described in Note 3.

g) Land, Buildings, and Equipment

Land, buildings and equipment are stated at cost less accumulated depreciation with the exception of the Animal Preserve and Refuge (see Notes 4 and 11). Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets as follows:

Buildings and improvements	10-40 years
Equipment and vehicles	5-7 years

The Organization capitalizes all property with a cost of at least \$1,000 and an estimated useful life in excess of one year.

h) Income Taxes

The Organization has qualified under the provisions of Section 501(c)(3) of the Internal Revenue Code, which provides for an exemption from federal income tax. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2010. The Organization is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2007.

i) Concentration of Credit Risk

The Organization maintains its cash balances at several financial institutions. At December 31, 2010, non interest bearing accounts are fully insured by the Federal Deposit Insurance Corporation ("FDIC") and other deposit accounts are insured up to \$250,000. As of December 31, 2010, all of the Organization's balances were fully insured.

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Notes to Consolidated Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Contributed Services

The Organization has a volunteer program, which allows people to donate their time to assist in caring for the animals. The Organization does not recognize any support, revenue or expense from services contributed by its volunteers, since they do not meet the criteria under the generally accepted accounting principles.

k) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may ultimately differ from estimates.

m) Professional Fees

Marks Paneth & Shron LLP ("MPS") provides accounting and internal audit services to the Organization. A partner of MPS is a member of the Board of Directors of the League.

n) Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the balance sheet through July 27, 2011, the date the financial statements were available to be issued.

NOTE 3: INVESTMENTS

Investment income is comprised of the following:

Dividends and interest	\$ 119,342
Realized and unrealized gain on investments	643,245
Investment fees	<u>(39,228)</u>
Net realized and unrealized gain on investments	<u>604,017</u>
Net investment income	<u>\$ 723,359</u>

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Notes to Consolidated Financial Statements

NOTE 3: INVESTMENTS (continued)

The fair value hierarchy defines 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, 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.

In determining the fair value of its investments, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk (or other parties such as Counterparty in a swap) in its assessment of fair value (see Note 2 "Fair Value Measurements").

Financial assets carried at fair value at December 31, 2010 are classified in the table in one of the three levels as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity securities			
Basic materials	\$ 1,936,149	\$ -	\$ 1,936,149
Services	632,438	-	632,438
Financial and			
Information technology	738,554	-	738,554
Industrial and			
consumer goods	591,507	-	591,507
Other	605,201	-	605,201
Real estate investment trust	162,356	-	162,356
US treasury bills	279,622	-	279,622
US government agencies	164,290	-	164,290
Corporate bonds			
Financial	-	173,934	173,934
Technology	-	51,734	51,734
Services	-	35,839	35,839
Other	-	49,728	49,728
Total	<u>\$ 5,110,117</u>	<u>\$ 311,235</u>	<u>\$ 5,421,352</u>

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS
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Notes to Consolidated Financial Statements

NOTE 3: INVESTMENTS (continued)

Investments in equity securities, real estate investment trusts, US treasury bills and US government agencies 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. Corporate bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities etc).

NOTE 4: LAND, BUILDINGS AND EQUIPMENT

As of December 31, 2010, land, buildings and equipment were comprised of the following:

Land and buildings	\$16,696,764
Equipment and vehicles	2,929,317
Animal preserve property – See Note 11	-
	19,626,081
 Accumulated depreciation	 (8,088,058)
	 \$11,538,023

During the year, the Organization wrote off approximately \$1,242,000 in fully depreciated assets.

NOTE 5: DEFINED BENEFIT PENSION PLAN

North Shore Animal League America, Inc. had a defined benefit pension plan ("the Plan") for all eligible employees who were at least twenty-one 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 year ended December 31, 2010, was \$194,952. The Organization made \$39,103 of cash contributions to the Plan during the year ended December 31, 2010, while the Plan made \$119,953 in benefit payments during the year. For the year ending December 31, 2011, the League expects to make contributions of approximately \$382,931 to the Plan.

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Notes to Consolidated Financial Statements

NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)

The following table sets forth the defined benefit plan funded status as determined by the plan's actuary as of December 31, 2010:

Benefit obligation at beginning of the year	\$ (6,862,159)
Interest cost	(411,428)
Actuarial gain/(loss)	(984,988)
Benefits paid	119,953
Settlements	<u>374,482</u>
Benefit obligation at end of year	(7,764,140)
Fair value of plan assets	<u>4,969,007</u>
Funded status	<u>\$ (2,795,133)</u>

Accrued pension benefit obligation recognized in the Consolidated Statements of Financial Position	<u>\$ 2,795,133</u>
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The net periodic benefit obligations and the components of benefit cost for the year ended December 31, 2010 is as follows:

Interest cost	\$ 411,428
Expected return on assets	(438,760)
Amortization of unrecognized (gain)/loss	<u>222,284</u>
Net periodic pension expense/(benefit)	<u>\$ 194,952</u>

The amounts recognized in the change in unrestricted net assets for the year ended December 31, 2010 is as follows:

Pension related changes other than net periodic pension costs	<u>\$760,388</u>
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The weighted average and other assumptions used in the accounting for net periodic pension cost for the fiscal year ended December 31, 2010, were as follows:

Discount rate (pre and post retirement)	5.75%
Average rate of increase in compensation levels	N/A
Expected long-term rate of return on assets	7.00%
Measurement date	12/31/10

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Notes to Consolidated Financial Statements

NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)

The estimated benefit payments to be paid by the Plan in each of the five years after 2010, and for the aggregate for the five years thereafter as of December 31, 2010 were determined to be as follows:

2011	\$ 357,514
2012	379,156
2013	389,418
2014	435,113
2015	446,480
2016 – 2020	2,495,961

Pension plan assets consist of investments in various mutual funds. The allocation by asset category for the League's pension plan investments are as follows:

	<u>Actual Allocation</u>	<u>Target Allocation*</u>
Equity securities	49%	65%
Fixed income securities	<u>51%</u>	<u>35%</u>
	<u>100%</u>	<u>100%</u>

*If the Plan is considered well funded, approximately 65% of the Plan's assets are allocated to equities and approximately 35% allocated to fixed income. If the Plan does not satisfy the criteria for a well funded plan, approximately 50% of the plan's assets are allocated to equities and approximately 50% allocated to fixed income. Asset rebalancing normally occurs when the equity and fixed income allocations vary by more than 10% from their respective targets (i.e., a 20% policy range guideline).

Plan assets are invested in diversified investment funds. The investment funds include equity mutual funds and bond mutual funds, each with its own investment objectives, investment strategies and risks. The investment advisor has been given discretion to determine the appropriate strategic asset allocation versus plan liabilities.

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.

The expected long-term rate of return on assets is based on historical averages considering the plan's target allocation.

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Notes to Consolidated Financial Statements

NOTE 6: IN-KIND SUPPORT

Contributions include in-kind contributions received by the Organization during 2010 for pet food in the amount of \$ 283,886.

Fair values have been assigned to the donated pet food based on market prices for similar items. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in program services.

NOTE 7: FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Major program services for the year ended December 31, 2010, include the following:

Pet rescue and adoption	\$ 10,937,680
Humane education	3,765,125
Spaying, neutering and vet care	9,537,151
Mutt-i-grees® program	334,457
Adopter's advantage	11,564
Co-op buying program	6,845
Miscellaneous programs	<u>1,275</u>
	<u>\$ 24,594,097</u>

In addition to the Organization's state of the art adoption and medical facilities, the Organization has developed a unique set of programs. Among these are The National Out of State Rescue Program, which saves the lives of homeless pets over a multi-regional area, predominantly in the southern United States; SPAY USA is a low cost referral service and the International Pet Adoptathon and Tour for Life spread the message worldwide to adopt shelter pets; and the Mutt-i-grees® program which is a multi-faceted humane education program that features an innovative curriculum, the Mutt-i-grees® Curriculum.

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Notes to Consolidated Financial Statements

NOTE 8: ALLOCATION OF JOINT COSTS

In 2010, the Organization conducted direct mail campaigns that included requests for contributions, as well as program components. The costs of conducting those campaigns included a total of \$9,131,509 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Program	\$ 7,244,564
Fund raising	<u>1,886,945</u>
Total	<u>\$ 9,131,509</u>

NOTE 9: RELATED-PARTY TRANSACTIONS

The League and the Foundation are operated as if they were separate entities. The incorporators and members of the Foundation include certain Directors and Executive officers of the League. In addition, 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.

The League has made advances to the Foundation, of which \$102,219 remained outstanding as of December 31, 2010 which has been eliminated for consolidation purposes.

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 2010, the League made grants of \$550,000 to the Foundation which has been eliminated for consolidation purposes.

NOTE 10: BENEFICIAL INTEREST IN TRUST

The Organization received a bequest of securities and real estate in 1995, which is being held in trust. Under the terms of the trust, the Organization is entitled to receive substantially all current net income of the trust until September 27, 2013, at which time the remaining assets held in the trust will be distributed to the Organization. All income and distributions from the trust are to be used for the care and treatment of animals. Accordingly, the bequest had been recorded as a temporarily restricted contribution. Current income received from the trust for which restrictions are satisfied in the same year are recorded as unrestricted revenue in the year received. Any change in value of the trust assets is reflected as unrealized gain (loss) included in investment income as temporarily restricted net assets. The estimated fair value of the trust assets as of December 31, 2010, amounted to approximately \$995,711 and is included in other assets and prepaid expenses on the consolidated statements of financial position.

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NOTE 11: ANIMAL PRESERVE AND REFUGE

On September 10, 2001, the Organization 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 Organization 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 12: COMMITMENTS

In 2009, the Organization entered into an agreement with Direct Fulfillment Systems ("DFS"), a fulfillment center, for the processing of its direct mail contributions. Under the terms of the agreement, the Organization is obligated to pay minimum service charges of approximately \$40,000 per month through December 31, 2011.

Also in 2009, the Organization entered into an agreement with MBS Insight, Inc. ("MBS"), which provides database processing services. Under the terms of the agreement, the Organization is obligated to pay minimum service charges of approximately \$70,000 per month through December 31, 2011.

NOTE 13: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Beneficial interest in trust – Note 10	\$ 995,711
Scholarship fund	322,266
Other restricted donations	<u>155,019</u>
Total temporarily restricted net assets	<u>\$ 1,472,996</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors.

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Notes to Consolidated Financial Statements

NOTE 14: PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes:

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

NOTE 15: 401(k) PLAN

The League adopted a 401(k) savings plan in 2003, whereby all employees may make contributions pursuant to a salary reduction agreement. Matching employer contributions are discretionary. There were no employer contributions for the year ended December 31, 2010.

NOTE 16: SPLIT-INTEREST AGREEMENTS - ANNUITY PAYMENT LIABILITY

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 specified 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 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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Notes to Consolidated Financial Statements

NOTE 17: MUTT-I-GREES® PROGRAM

The Mutt-i-grees® Initiative is the Foundation's newest program. It is a multifaceted humane education program that will feature an innovative school curriculum, the Mutt-i-grees® Curriculum. The curriculum, targeting children from Pre-K to High School level students, is being developed in four phases. The Foundation is developing the Mutt-i-grees® Curriculum in collaboration with Yale University's School of the 21st Century. A relative of a Board member of the Foundation is a Director for the School of the 21st Century. In January 2011, the Millan Foundation signed a pledge agreement to donate funds in the amount of \$250,000 for the development, production and distribution of Phase 2 of the Curriculum.

NOTE 18: ENDOWMENT NET ASSETS

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from these assets is to be used for support of the Organization's general activities.

Accounting principles generally accepted in the United States of America provides guidance on the net asset classifications of donor-restricted endowment funds for not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). New York State enacted a version of UPMIFA on September 17, 2010. This law is commonly referred to as "NYPMIFA" (New York Prudent Management Institutional Funds Act).

The Board of Directors has interpreted New York State nonprofit law (UPMIFA prior to September 17, 2010 and NYPMIFA thereafter) as requiring the preservation of the historical dollar value of the original donor restricted endowment gift as of the gift date, absent explicit donor stipulations to the contrary. See Note 2a for how the organization maintains its net assets.

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 required the organization to retain in perpetuity. These deficiencies can result from unfavorable market fluctuations that can occur in the economy as a whole which affect the donor-restricted endowment fund. As of December 31, 2010, there were no deficiencies in the Organization's endowment funds.

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.

**NORTH SHORE ANIMAL LEAGUE AMERICA, INC. AND THE PET SAVERS
FOUNDATION, INC
(A Non-Profit Organization)**

Notes to Consolidated Financial Statements

NOTE 18: ENDOWMENT NET ASSETS (continued)

Changes in endowment net assets for year ending December 31, 2010 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Contribution to endowments	\$ -	\$ 10,000	\$ 10,000
Investment activity:			
Interest and dividends	10,723	-	10,723
Investment fees	(3,162)	-	(3,162)
Realized and unrealized gain/(loss) on investments, net	62,909	-	62,909
Total investment activity	70,470	-	70,470
Releases from restrictions	(198,333)	-	(198,333)
Changes in endowment net assets	(127,863)	10,000	(117,863)
Endowment net assets, beginning of year	390,207	452,916	843,123
Endowment net assets, end of year	<u>\$ 262,344</u>	<u>\$ 462,916</u>	<u>\$ 725,260</u>

The description of amounts of endowment net assets classified as permanently restricted net assets and temporarily restricted net assets are as follows:

Permanently restricted net assets that are required to be retained permanently by explicit donor stipulation	\$ 462,916
Temporarily restricted net assets subject to time restrictions:	
With purpose restrictions	<u>262,344</u>
	<u>\$ 725,260</u>

Endowment net assets of \$725,260 as of December 31, 2010 are included in the Cash and cash equivalents and Investments accounts in the accompanying consolidated statements of financial position.

**NORTH SHORE ANIMAL LEAGUE INC. AND
THE PET SAVERS FOUNDATION, INC.
(A Non-Profit Organization)**

Supplemental Information

Consolidating Schedules Financial Position

	As of December 31, 2010			
	North Shore Animal League	Pet Savers Foundation	Consolidating Eliminations	Consolidated Total
ASSETS				
Cash and cash equivalents	4,725,255	\$ 17,174	\$ -	\$ 4,742,429
Bequests receivable	873,872	-	-	873,872
Contributions receivable	-	25,075	-	25,075
Other receivables	-	2,750	-	2,750
Land, buildings and equipment	11,492,122	45,901	-	11,538,023
Other assets and prepaid expenses	2,814,576	-	(102,219)	2,712,357
Investments	5,421,352	-	-	5,421,352
	\$ 25,327,177	\$ 90,900	\$ (102,219)	\$ 25,315,858
LIABILITIES				
Accounts and accrued expenses payable	2,799,154	\$ 33,370	\$ -	\$ 2,832,524
Loan payable - NSAL	-	102,219	(102,219)	-
Annuity payment liability	1,409,511	-	-	1,409,511
Accrued pension benefit obligation	2,795,133	-	-	2,795,133
	7,003,798	135,589	(102,219)	7,037,168
NET ASSETS - UNRESTRICTED				
Unrestricted	16,387,467	(44,689)	-	16,342,778
Temporarily restricted	1,472,996	-	-	1,472,996
Permanently restricted	462,916	-	-	462,916
	18,323,379	(44,689)	-	18,278,690
	\$ 25,327,177	\$ 90,900	\$ (102,219)	\$ 25,315,858

See independent auditors' report.

**NORTH SHORE ANIMAL LEAGUE INC. AND
THE PET SAVERS FOUNDATION, INC.
(A Non-Profit Organization)**

Supplemental Information

Consolidating Schedules of Activities and Changes in Net Assets

	Year Ended December 31, 2010									
	North Shore Animal League			Pet Savers Foundation			Consolidating Eliminations			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Consolidating Eliminations	Consolidated Total
REVENUES, INVESTMENT INCOME AND OTHER SUPPORT										
Contributions	\$ 21,754,779	\$ 261,818	\$ 10,000	\$ 22,026,597	\$ 6,277	\$ -	\$ -	\$ 6,277	\$ -	\$ 22,032,874
Grants	-	-	-	-	550,000	-	-	550,000	(550,000)	-
Bequests	4,659,513	-	-	4,659,513	-	-	-	-	-	4,659,513
Program service revenue	4,160,112	-	-	4,160,112	35,682	-	-	35,682	-	4,195,794
Dividends and interest	108,819	10,723	-	119,542	-	-	-	-	-	119,542
List rental income	833,390	-	-	833,390	-	-	-	-	-	833,390
Other revenue	81,413	-	-	81,413	-	-	-	-	-	81,413
Net assets released from restrictions:										
Satisfaction of program restrictions	464,299	(464,299)	-	-	181,650	(181,650)	-	-	-	-
	32,062,125	(191,758)	10,000	31,880,367	773,609	(181,650)	(181,650)	591,959	(550,000)	31,922,326
EXPENSES										
Program services	24,591,004	-	-	24,591,004	536,664	-	-	536,664	(533,571)	24,594,097
Fundraising	5,091,459	-	-	5,091,459	16,356	-	-	16,356	(5,563)	5,102,252
Management and general	1,136,443	-	-	1,136,443	31,947	-	-	31,947	(10,866)	1,157,524
Total Operating Expenses	30,818,906	-	-	30,818,906	584,967	-	-	584,967	(550,000)	30,853,873
Change in Net Assets from Operations	1,243,219	(191,758)	10,000	1,061,461	188,642	(181,650)	(181,650)	6,992	-	1,068,453
Net realized and unrealized gain on investments	521,598	82,419	-	604,017	-	-	-	-	-	604,017
Change in value of split-interest agreements	(127,238)	-	-	(127,238)	-	-	-	-	-	(127,238)
Pension related changes other than net periodic pension costs	(760,388)	-	-	(760,388)	-	-	-	-	-	(760,388)
Change in Net Assets	877,191	(109,339)	10,000	777,852	188,642	(181,650)	(181,650)	6,992	-	784,844
Net Assets at Beginning of Year	15,510,276	1,582,335	452,916	17,545,527	(233,331)	181,650	181,650	(51,681)	-	17,493,846
Net Assets at End of Year	\$ 16,387,467	\$ 1,472,996	\$ 462,916	\$ 18,323,379	\$ (44,689)	\$ -	\$ -	\$ (44,689)	\$ -	\$ 18,278,690

See independent auditors' report.