

**Western Pennsylvania Humane  
Society  
(A Nonprofit Organization)**

**Financial Statements  
For the Years Ended  
September 30, 2011 and 2010**

**Western Pennsylvania Humane Society  
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For the Years Ended September 30, 2011 and 2010**

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*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Western Pennsylvania Humane Society  
Pittsburgh, Pennsylvania

We have audited the accompanying statement of financial position of Western Pennsylvania Humane Society (a nonprofit organization) as of September 30, 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Western Pennsylvania Humane Society's 2010 financial statements and, in our report dated March 8, 2011, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Pennsylvania Humane Society as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Goff Backa Alfera & Company, LLC

Pittsburgh, Pennsylvania  
March 14, 2012

**Western Pennsylvania Humane Society**  
**Statements of Financial Position**  
**September 30,**

ASSETS	2011	2010
	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 508,081	\$ 430,948
Unconditional promises to give	211,663	118,444
Inventory	167,404	89,865
Prepaid expenses	48,441	34,112
	935,589	673,369
<b>LONG-TERM INVESTMENTS</b>	7,434,036	8,275,558
<b>PROPERTY AND EQUIPMENT, NET</b>	3,630,231	3,661,020
<b>OTHER ASSETS-PERMANENTLY RESTRICTED</b>		
Long-term investments	452,636	482,345
	\$ 12,452,492	\$ 13,092,292
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 176,151	\$ 237,830
Accrued pension liability-current portion	29,499	29,499
Bonds payable - current portion	100,000	100,000
Accrued payroll and taxes	75,885	138,363
Other current liabilities	24,928	29,695
Note payable - current portion	4,320	4,003
	410,783	539,390
<b>LONG-TERM LIABILITIES</b>		
Accrued pension liability - non-qualified	150,477	170,011
Accrued pension liability - qualified	586,598	507,893
Bonds payable	1,000,000	1,100,000
Note payable - vehicle loan	9,258	13,577
	1,746,333	1,791,481
<b>TOTAL LIABILITIES</b>	2,157,116	2,330,871
<b>NET ASSETS</b>		
Unrestricted	9,756,675	10,156,123
Temporarily restricted	86,065	122,953
Permanently restricted	452,636	482,345
	10,295,376	10,761,421
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 12,452,492	\$ 13,092,292

**Western Pennsylvania Humane Society**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended September 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND OTHER SUPPORT</b>				
Individual/group contributions	\$ 1,537,496	\$ 21,720	\$ -	\$ 1,559,216
Program services	1,719,810	-	-	1,719,810
Investment (losses) gains	218,691	-	(29,709)	188,982
Fundraising revenues	237,172	-	-	237,172
Donated equipment and supplies	5,039	-	-	5,039
Other revenue	44,257	-	-	44,257
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<b>3,762,465</b>	<b>21,720</b>	<b>(29,709)</b>	<b>3,754,476</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>58,608</b>	<b>(58,608)</b>	<b>-</b>	<b>-</b>
<b>TOTAL REVENUE AND RECLASSIFICATIONS</b>	<b>3,821,073</b>	<b>(36,888)</b>	<b>(29,709)</b>	<b>3,754,476</b>
<b>EXPENSES</b>				
Program services	3,656,047	-	-	3,656,047
Management and general	288,809	-	-	288,809
Development	147,682	-	-	147,682
Fundraising	50,004	-	-	50,004
Volunteer	37,482	-	-	37,482
<b>TOTAL EXPENSES</b>	<b>4,180,024</b>	<b>-</b>	<b>-</b>	<b>4,180,024</b>
<b>DECREASE IN NET ASSETS</b>	<b>(358,951)</b>	<b>(36,888)</b>	<b>(29,709)</b>	<b>(425,548)</b>
<b>CHANGE IN UNRECOGNIZED PENSION COSTS</b>	<b>(40,497)</b>	<b>-</b>	<b>-</b>	<b>(40,497)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>10,156,123</b>	<b>122,953</b>	<b>482,345</b>	<b>10,761,421</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 9,756,675</b>	<b>\$ 86,065</b>	<b>\$ 452,636</b>	<b>\$ 10,295,376</b>

**Western Pennsylvania Humane Society**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended September 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND OTHER SUPPORT</b>				
Individual/group contributions	\$ 1,089,100	\$ 114,596	\$ -	\$ 1,203,696
Program services	1,807,763	-	-	1,807,763
Investment gains	739,895	-	13,392	753,287
Fundraising revenues	213,016	-	-	213,016
Donated equipment and supplies	74,729	-	-	74,729
Other revenue	26,424	-	-	26,424
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<b>3,950,927</b>	<b>114,596</b>	<b>13,392</b>	<b>4,078,915</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>50,238</b>	<b>(50,238)</b>	<b>-</b>	<b>-</b>
<b>TOTAL REVENUE AND RECLASSIFICATIONS</b>	<b>4,001,165</b>	<b>64,358</b>	<b>13,392</b>	<b>4,078,915</b>
<b>EXPENSES</b>				
Program services	3,576,082	-	-	3,576,082
Management and general	319,764	-	-	319,764
Development	121,485	-	-	121,485
Fundraising	43,247	-	-	43,247
Volunteer	43,110	-	-	43,110
<b>TOTAL EXPENSES</b>	<b>4,103,688</b>	<b>-</b>	<b>-</b>	<b>4,103,688</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(102,523)</b>	<b>64,358</b>	<b>13,392</b>	<b>(24,773)</b>
<b>CHANGE IN UNRECOGNIZED PENSION COSTS</b>	<b>63,081</b>	<b>-</b>	<b>-</b>	<b>63,081</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>10,195,565</b>	<b>58,595</b>	<b>468,953</b>	<b>10,723,113</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 10,156,123</b>	<b>\$ 122,953</b>	<b>\$ 482,345</b>	<b>\$ 10,761,421</b>

Western Pennsylvania Humane Society  
Statement of Functional Expenses  
For The Year Ended September 30, 2011  
(With Comparative Totals For The Year Ended September 30, 2010)

	Program Services										Supporting Services			2010 Total
	Investigation	Pittsburgh Clinic	Adoption Customer Service	Outreach & Education	Operations Pittsburgh Shelter	Elizabeth Shelter Clinic & Cemetery	Total	Management and General	Development	Fundraising	Volunteer	Services Total	2011 Total	
Salaries	\$ 167,722	284,729	\$ 246,380	240,501	551,687	241,109	\$ 1,732,128	\$ 160,608	\$ 61,593	\$ -	\$ -	\$ 222,201	\$ 1,954,329	\$ 1,835,700
Payroll taxes and employee benefits	47,241	66,465	64,116	59,090	122,470	42,440	401,822	32,276	13,176	-	-	45,452	447,274	424,377
	214,963	351,194	310,496	299,591	674,157	283,549	2,133,950	192,884	74,769	-	-	267,653	2,401,603	2,260,077
Program purchases	65,700	131,398	197,096	91,978	249,656	131,398	867,226	26,280	26,280	26,280	26,280	128,844	996,070	1,059,243
Occupancy expenses	20,447	40,895	61,342	28,626	77,700	40,895	269,905	8,179	8,179	8,179	8,179	24,537	294,442	299,389
Pension	5,067	10,134	15,200	7,094	19,254	10,134	66,883	2,027	2,027	2,027	2,027	6,081	72,964	96,257
Repairs and maintenance	2,490	12,902	7,469	3,486	9,461	4,979	40,787	996	996	996	996	2,988	43,775	39,871
Professional services	4,239	5,976	4,248	4,240	41,179	11,260	71,142	24,636	8,592	-	-	33,228	104,370	120,728
Office expense	-	-	-	-	-	-	-	-	7,764	-	-	7,764	7,764	11,437
Trust and bank charges	-	-	12,583	-	-	-	12,583	5,217	5,217	-	-	5,217	17,800	12,653
Postage	-	573	-	1,317	474	-	2,364	2,422	14,257	-	-	16,679	19,043	4,866
Taxes and licenses	-	3,829	-	-	-	-	3,829	7,305	-	-	-	7,305	11,134	1,571
Auto expenses	18,058	-	5,744	-	-	-	23,802	-	-	-	-	-	23,802	18,377
Depreciation	-	-	-	-	154,712	8,864	163,576	-	-	-	-	-	163,576	155,696
Miscellaneous expense	-	-	-	-	-	-	-	-	4,818	-	-	4,818	4,818	1,527
Interest expense	-	-	-	-	-	-	-	18,863	-	-	-	18,863	18,863	21,996
	\$ 330,964	\$ 556,901	\$ 614,178	\$ 436,332	\$ 1,226,593	\$ 491,079	\$ 3,656,047	\$ 288,809	\$ 147,682	\$ 50,004	\$ 37,482	\$ 523,977	\$ 4,180,024	\$ 4,103,688

**Western Pennsylvania Humane Society**  
**Statements of Cash Flows**  
**For the Years Ended September 30,**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (425,548)	\$ (24,773)
Adjustments to reconcile decrease in net assets to cash provided (used) in operating activities:		
Depreciation	163,576	155,696
Net realized and unrealized gains (losses) on long-term investments	188,982	753,287
Net pension benefit cost	38,208	33,617
(Increase) decrease in assets:		
Unconditional promise to give	(93,219)	(62,123)
Inventory	(77,539)	1,109
Prepaid expenses	(14,329)	2,023
Increase (decrease) in liabilities:		
Accounts payable	(61,679)	30,319
Accrued compensation and payroll taxes	(62,478)	9,419
Accrued liabilities	(4,767)	10,474
Accrued pension liability - non-qualified	(19,534)	(6,912)
<b>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</b>	<b>(368,327)</b>	<b>902,136</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(132,787)	(41,521)
(Purchases of) proceeds from sales of long-term investments, net	682,249	(733,583)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>549,462</b>	<b>(775,104)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on debt	(104,002)	(103,546)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(104,002)</b>	<b>(103,546)</b>
<b>NET INCREASE IN CASH</b>	77,133	23,486
<b>CASH AT BEGINNING OF YEAR</b>	<b>430,948</b>	<b>407,462</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 508,081</b>	<b>\$ 430,948</b>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest paid	\$ 18,863	\$ 21,996
<b>NON-CASH FINANCING ACTIVITIES</b>		
Deferred pension benefit cost	\$ 40,497	\$ (63,081)



**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 1 – Nature of Nonprofit Activities**

The Western Pennsylvania Humane Society (the “Society”) is working to provide and advocate compassionate care for all animals and to enhance the human experience of pet ownership for our community.

*Education*

Through school visits, shelter tours, and community outreach, the Society encourages responsible pet ownership and animal safety. Obedience training classes are conducted to help strengthen the human-pet bond with both newly adopted dogs and family pets. Our pet assisted therapy programs allow elderly, physically or mentally challenged, and other special needs groups to engage with and realize the benefits of animal contact when the patient is in a facility that does not allow them to share their room with a pet.

*Investigation*

The Society actively investigates and prosecutes cases of animal abuse, neglect, and cruelty to insure that the laws of the Commonwealth of Pennsylvania are enforced. On a daily basis the officers respond to allegations of abuse and neglect from concerned members of the community. Humane officers routinely conduct inspections of pet shops, stables, and other animal related facilities to ensure that the animals are protected and cared for appropriately.

*Support*

The Society maintains two shelters for receiving, holding, and adopting temporarily homeless pets, including owner surrendered animals, strays, and confiscated animals. The Society is an “open-door” shelter, there is never a waiting list or admission fee, and the Society turns no animal away. Also, the Fallen Timber Facility, located in Elizabeth, PA, has limited hours yet provides all of the services the North Shore shelter does and also maintains a pet cemetery.

Both facilities maintain veterinary clinics, which provide medical care and spay/neuter surgeries for animals at the shelter and low cost clients, routine post-adoption care, wellness exams, as well as other animal related services for our clients.

The Society serves as the Greater Pittsburgh community resource for animal information and is a leader in a wide range of animal related topics including lost and found services, animal cruelty and abuse prevention, humane education and corporate bite prevention, obedience training classes, pet wellness veterinary appointments, pet retail items and resources, and adoptions of all types of domestic animals.

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 2 – Summary of Significant Accounting Policies**

*Financial Statement Presentation*

The Society has adopted FASB ASC 958, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition the Society is required to present a statement of activities and a statement of cash flows.

*Accrual Basis of Accounting*

The financial statements of the Society have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned rather than when received, and expenses are recognized when incurred rather than when paid.

*Grants and Contributions*

The Organization has also adopted FASB ASC 958 Accounting for Contributions Received and Contributions Made. In accordance with FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Unrestricted net assets include amounts designated by the board as an operating reserve.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

A grant that is for the general support of the Society or does not provide a direct benefit to the grantor is classified as an unrestricted contribution. Grants for a purpose specified by the grantor are classified as temporarily restricted contributions.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

*Donated Services and Facilities*

Under generally accepted accounting principles for not-for-profit organizations, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Materials, equipment and services received as donations are recorded and reflected in the accompanying financial statements at their estimated fair values at the date of receipt. The amount of such donated materials, equipment and services was \$5,039 and \$74,729 for the years ended September 30, 2011 and 2010, respectively.

*Comparative Financial Information*

The financial statements include certain prior-year summarized comparative information but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended September 30, 2010, from which the summarized information was derived.

*Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Society considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

*Concentration of Credit Risk*

The society maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At September 30, 2011, the amount of cash that exceeded the federally insured limit was \$313,636.

*Unconditional Promises to Give*

Contributions are recognized when the donor makes a promise to give to the Society, that is, in substance unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

*Inventory*

Inventory consists of various medicines, surgical supplies and other pet supplies and is stated at the lower of cost or market, with cost determined by the first-in, first-out method. Supplies are low cost items that are always on hand. A value for supplies was determined as of September 30, 2009 and will remain constant. New items of supplies not included in inventory will be expensed as purchased.

*Property and Equipment*

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is accounted for on the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and improvements that extend the useful lives of equipment are capitalized. Costs of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement. Depreciation expense for the years ended September 30, 2011 and 2010 was \$163,576 and \$155,696, respectively.

*Accrued Vacation*

The Society provides for compensated vacation and sick days for employees who meet the necessary employment requirements. The Society does allow the carryover of unused vacation days to subsequent periods but limits the total accrued days of vacation based upon years of service. The Society does permit the carryover of unused sick days to subsequent periods but does not limit the total sick time that can be accrued. Terminated employees are compensated for their remaining vacation time but are not compensated for unused sick time. For the years ended September 30, 2011 and 2010, the Society accrued \$71,322 and \$80,133, respectively, for compensated absences.

*Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The basis for the allocation of expenses is defined by the number of employees working in each program as a percentage of the total number of employees at the Society.

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

*Income Taxes*

The Society qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal or state income taxes. In addition, the Society qualifies for the charitable contribution deduction under IRC Section 170(b) (1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Society is duly registered as a Charitable Organization with the Department of State, Commonwealth of Pennsylvania.

The Society's forms 990, *Return of Organization Exempt from Income tax*, for the years ending September 30, 2010, 2009, and 2008 are subject to examination by the IRS, generally for three years after they were filed.

*Consideration of Subsequent Events*

The Society has evaluated subsequent events in accordance with Accounting Standards Codification Topic 855, Subsequent Events, through March 14, 2012, which is the date the financial statements were available to be issued.

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 3 – Long Term Investments**

The policy of the Society is to maintain its investment portfolio at 65% equities and 35% fixed income. Investments as of September 30, 2011, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Permanently Restricted:		
U.S. Treasury bills	\$ 8,566	\$ 8,877
Money market funds	12,184	12,184
Common stocks with readily determinable fair values	117,770	138,509
Mutual funds	<u>252,240</u>	<u>293,066</u>
Permanently Restricted Total	<u>390,760</u>	<u>452,636</u>
Unrestricted:		
U.S. Treasury bills	242,850	251,668
Money market funds	130,526	141,407
Common stocks with readily determinable fair values	4,007,979	4,670,730
Mutual funds	<u>1,998,894</u>	<u>2,370,231</u>
Unrestricted Total	<u>6,380,249</u>	<u>7,434,036</u>
Total	<u>\$ 6,771,009</u>	<u>\$ 7,886,672</u>

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 3 – Long Term Investments (Continued)**

Investments as of September 30, 2010 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Permanently Restricted:		
U.S. Treasury bills	\$ 8,565	\$ 9,167
Money market funds	21,119	21,119
Common stocks with readily determinable fair values	126,901	155,485
Mutual funds	<u>252,274</u>	<u>296,574</u>
Permanently Restricted Total	<u>408,859</u>	<u>482,345</u>
Unrestricted:		
U.S. Treasury bills	242,850	259,896
Money market funds	340,188	351,069
Common stocks with readily determinable fair values	4,312,073	5,249,055
Mutual funds	<u>1,977,443</u>	<u>2,415,538</u>
Unrestricted Total	<u>6,872,554</u>	<u>8,275,558</u>
Total	<u>\$ 7,281,413</u>	<u>\$ 8,757,903</u>

Investment income and gains and losses on investments for the years ended September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 247,278	\$ 681,128
Realized gains	148,427	125,466
Unrealized losses	(189,946)	(36,622)
Trust & investment fees	<u>(16,777)</u>	<u>(16,685)</u>
	<u>\$ 188,982</u>	<u>\$ 753,287</u>

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 4 – Fair Value Measurements**

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That 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). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Society has the ability to access.

Level 2 inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Society's own data.)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Society's investments are all valued based on Level 1 inputs.

Following is a brief description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2011 and 2010.

U.S. treasury bonds – Valued at the closing price reported on the active market on which the individual securities are reported.

Money market funds – Valued at cost of the investment.

Mutual funds – Valued at net asset value ('NAV') of share held by the plan at year end.

Common stocks – Valued at the closing price reported on the active market on which the individual securities are traded.



**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 5 – Property and Equipment**

Property and equipment, which is stated at cost, consisted of the following classes of assets at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 178,396	\$ 178,396
Buildings	4,503,228	4,393,434
Automobiles and equipment	<u>730,980</u>	<u>708,055</u>
	5,412,604	5,279,885
Less accumulated depreciation	<u>1,782,373</u>	<u>1,618,865</u>
	<u>\$ 3,630,231</u>	<u>\$ 3,661,020</u>

**Note 6 – Bonds Payable**

In June 2002, the Society issued, through the Allegheny County Development Authority, 20-year variable rate demand revenue bonds in the amount of \$2,000,000. The variable interest rate (1.90% and 3.10% at September 30, 2011 and 2010 respectively) is determined by the 7 day floating bond rate. The original bond agreement required the Society to comply with certain loan covenants, the most restrictive of which was that the Society maintains a cash flow coverage ratio of 1 to 1. Effective July 2006, the cash flow ratio covenant was eliminated from the debt agreement with the financial institution.

The original bond agreement also called for monthly payments of \$8,333 plus interest which the bank maintained in a sinking fund account. The bonds were to be retired on an annual basis of \$100,000. In January 2006, the Society entered into a new agreement to remedy various issues related to the maintenance of the sinking fund. The terms of the new agreement effectively eliminate the monthly sinking fund payments of \$8,333 and now require a quarterly payment of \$25,000. In accordance with the original agreement, the Society will continue to retire the bonds based on annual payments of \$100,000 until the debt is satisfied. At September 30, 2011 and 2010, the principal outstanding on the bonds amounted to \$1,100,000 and \$1,200,000, respectively.

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
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**Note 6 – Bonds Payable (Continued)**

Maturities of notes payable for each of the next five years are as follows:

<u>Years Ending September 30,</u>	
2012	\$ 100,000
2013	100,000
2014	100,000
2015	100,000
2016	100,000
Thereafter	<u>600,000</u>
	<u>\$ 1,100,000</u>

**Note 7 – Note Payable**

On August 20, 2009, Western Pennsylvania Humane Society entered into a loan agreement where they financed a vehicle for \$21,561. The loan bears interest at 7.64% and requires monthly interest and principal payments. The outstanding balance at September 30, 2011 of \$13,578 is shown as vehicle loan on the balance sheet. Maturities of long-term debt are as follows:

<u>Year Ended September 30,</u>	
2012	\$ 4,320
2013	4,662
2014	<u>4,596</u>
	<u>\$ 13,578</u>

**Note 8 – Operating Leases**

The Society leases certain office equipment under non-cancelable operating leases. Lease expense for the years ended September 30, 2011 and 2010 totaled \$35,650 and \$14,527, respectively. Future minimum lease payments under leases that have terms in excess of one year are as follows:

<u>Years Ending September 30,</u>	
2012	\$ 30,609
2013	21,321
2014	12,156
2015	2,028
2016	<u>676</u>
	<u>\$ 66,790</u>

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
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**Note 9 – Retirement Plans**

*Qualified Defined Benefit Plan*

The Society's defined benefit pension plan covers substantially all of its employees with five years of service. The benefits are based on years of service and an employee's compensation during the last five years of employment. At December 31, 2003 the plan benefit accruals were frozen and all participants in the plan became fully vested.

The following provides further information about the plan:

	<u>2011</u>	<u>2010</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 1,340,135	\$ 1,335,134
Interest cost	69,617	69,390
Actuarial (gain) loss	25,472	(37,468)
Benefits paid	<u>(29,577)</u>	<u>(26,921)</u>
Benefit obligations at end of year	1,405,647	1,340,135
Change in plan assets:		
Fair value of plan assets at beginning of year	832,242	797,777
Contributions	21,000	40,000
Actual gain (loss) on plan assets	(4,616)	21,386
Benefits paid	<u>(29,577)</u>	<u>(26,921)</u>
Fair value of plan assets at end of year	<u>819,049</u>	<u>832,242</u>
Funded status	<u>\$ (586,598)</u>	<u>\$ (507,893)</u>

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 9 – Retirement Plans (Continued)**

	<u>2011</u>	<u>2010</u>
Funded status and net amounts recognized as of September 30:		
Plan assets less than benefit obligation	\$ (586,598)	\$ (507,893)
Unrecognized net actuarial loss	-	-
Unrecognized prior service cost (benefit)	-	-
	<u>                    </u>	<u>                    </u>
Net amount recognized	<u>\$ (586,598)</u>	<u>\$ (507,893)</u>
Amounts recognized as of September 30:		
Accrued benefit liability	\$ (586,598)	\$ (507,893)
Intangible asset	-	-
	<u>                    </u>	<u>                    </u>
Net amount recognized	<u>\$ (586,598)</u>	<u>\$ (507,893)</u>
Amounts included in unrecognized pension costs as of September 30:		
Deferred amendments	\$ 602,087	\$ 647,494
Deferred actuarial loss	(179,555)	(266,180)
	<u>                    </u>	<u>                    </u>
Net amount recognized	<u>\$ 422,532</u>	<u>\$ 381,314</u>
Net periodic benefit cost for the years ended September 30, 2011 and 2010 included the following components:		
	<u>2011</u>	<u>2010</u>
Interest cost on projected benefit obligation	\$ 69,617	\$ 69,390
Prior service cost amortization	45,406	45,406
Actual return (loss) on assets	(12,551)	(21,386)
Expected return on assets	(43,986)	(19,793)
	<u>                    </u>	<u>                    </u>
Net periodic benefit cost	<u>\$ 58,486</u>	<u>\$ 73,617</u>

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 9 – Retirement Plans (Continued)**

The company estimates benefit payments for each of the next five years and in the aggregate for the five years thereafter as follows:

2012	\$ 46,300
2013	46,000
2014	45,700
2015	51,300
2016	72,100
2017-2021	<u>477,700</u>
	<u><u>\$ 739,100</u></u>

	<u>2011</u>	<u>2010</u>
Weighted-average assumptions as of September 30:		
Discount rate to determine benefit obligations	5.00%	5.25%
Discount rate to determine net period benefit cost	5.25%	5.25%
Expected return on plan assets	5.25%	5.25%
Rate of compensation increase	N/A	N/A

*Non-Qualified Defined Benefit Plan*

The Society also has a non-qualified pension plan whereby they make monthly benefit payments to retired employees, based on years of service and prior earnings. The society has agreed to make annual payments of \$29,499 to the retired employees. Generally accepted accounting principles require the Society to record a liability for these obligations to equal the present value of the benefits to be paid. The present value of the future benefit for these retirees was \$179,976 and \$199,510 as of September 30, 2011 and 2010, respectively.

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 9 – Retirement Plans (Continued)**

*401(k) Plan*

The Society maintains a 401(k) defined contribution plan. All employees of the Society are eligible to participate in the plan. Employees may contribute up to the maximum percentage of compensation and dollar amount permissible under Section 402(g) of the Internal Revenue Code not to exceed the limits of Code Sections 401(k), 404 and 415. The Society has made a discretionary contribution of \$25 per month (or \$300 per year) for each eligible participant if the participant is employed on the last day of the plan year and has worked 1,000 hours of service during the plan year. In addition, the Society's matches 40% of employee contributions up to the first 4% deducted from their gross wages. Employer contributions to the plan were \$23,613 and \$21,082 for year ended September 30, 2011 and 2010, respectively.

**Note 10 – Temporarily Restricted Net Assets**

Temporarily restricted net assets were restricted for the following purposes at September 30:

	<u>2011</u>	<u>2010</u>
Bite prevention education	\$ 18,183	\$ 13,569
Kenneth Scott boosting study	7,269	7,269
Improvements for fallen timber shelter	15,459	14,060
Pitt bull enrichment	1,219	1,219
Saving animals from cruelty	6,795	6,795
Shuman program	2,665	1,852
Betterment of cats	2,346	2,346
Spay and neuter	3,993	3,993
Adopt freedom	5,000	5,000
Investigations	28	4,723
Foster tech	17,667	61,507
Miscellaneous programs	620	620
Ellie's pet pantry	500	-
Customer service	2,771	-
Phone system	1,550	-
	<u>\$ 86,065</u>	<u>\$ 122,953</u>

**Western Pennsylvania Humane Society**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 10 – Temporarily Restricted Net Assets (Continued)**

Net assets were released from donor restrictions by incurring expenses satisfying the purpose on time restrictions specified by donors as follows:

	<u>2011</u>	<u>2010</u>
Funds expended for:		
Animal cruelty	\$ 4,695	\$ 19,373
Foster tech employment	43,840	16,493
Bite prevention education	5,386	5,000
Kenneth Scott boosting study	-	360
Shuman program	4,687	7,132
Cat care	-	1,880
	<u>\$ 58,608</u>	<u>\$ 50,238</u>

**Note 11 – Permanently Restricted Net Assets**

Permanently restricted net assets consist of a portion of the endowment fund which represents the principal amount of bequests accepted with donor stipulations that the principal be maintained intact in perpetuity. Donor stipulations exist that require the Society to maintain separate accounts for certain funds. The income from investments is unrestricted revenue and may be expended for general purposes.