

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

**Financial Statements
For the Years Ended
September 30, 2012 and 2011**

**Western Pennsylvania Humane Society
Index to Financial Statements
For the Years Ended September 30, 2012 and 2011**

CONTENTS:

Independent Auditors' Report.....1

FINANCIAL STATEMENTS:

Statements of Financial Position.....2

Statements of Activities and Changes in Net Assets 3-4

Statements of Functional Expenses 5-6

Statements of Cash Flows.....7

Notes to Financial Statements..... 8-25



3325 Saw Mill Run Blvd.
Pittsburgh, PA 15227-2736
412/885-5045
Fax 412/885-4870
www.gbaco.com

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Western Pennsylvania Humane Society (a nonprofit organization) as of September 30, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits.

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. 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, 2012 and 2011, 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.

A handwritten signature in cursive script that reads "Goff Backa Alfera & Company, LLC".

Goff Backa Alfera & Company, LLC
Pittsburgh, Pennsylvania
February 15, 2013

Western Pennsylvania Humane Society
Statements of Financial Position
September 30,

ASSETS	2012	2011
	<u> </u>	<u> </u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 211,357	\$ 508,081
Unconditional promises to give	30,142	211,663
Inventory	216,241	167,404
Prepaid expenses	44,016	48,441
	<u>501,756</u>	<u>935,589</u>
LONG-TERM INVESTMENTS	<u>7,811,860</u>	<u>7,434,036</u>
PROPERTY AND EQUIPMENT, NET	3,895,231	3,630,231
OTHER ASSETS-PERMANENTLY RESTRICTED		
Long-term investments	<u>478,280</u>	<u>452,636</u>
TOTAL ASSETS	<u>\$ 12,687,127</u>	<u>\$ 12,452,492</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 231,886	\$ 176,151
Accrued pension liability-current portion	29,499	29,499
Bonds payable - current portion	100,000	100,000
Accrued payroll and taxes	84,728	75,885
Other current liabilities	120,153	24,928
Note payable - current portion	<u>17,888</u>	<u>4,320</u>
TOTAL CURRENT LIABILITIES	<u>584,154</u>	<u>410,783</u>
LONG-TERM LIABILITIES		
Accrued pension liability - non-qualified	129,975	150,477
Accrued pension liability - qualified	831,217	586,598
Bonds payable	900,000	1,000,000
Note payable - vehicle loan	<u>60,651</u>	<u>9,258</u>
TOTAL LONG-TERM LIABILITIES	<u>1,921,843</u>	<u>1,746,333</u>
TOTAL LIABILITIES	<u>2,505,997</u>	<u>2,157,116</u>
NET ASSETS		
Unrestricted	9,564,307	9,756,675
Temporarily restricted	138,543	86,065
Permanently restricted	<u>478,280</u>	<u>452,636</u>
TOTAL NET ASSETS	<u>10,181,130</u>	<u>10,295,376</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,687,127</u>	<u>\$ 12,452,492</u>

Western Pennsylvania Humane Society
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Individual/group contributions	\$ 1,314,315	\$ 175,433	\$ -	\$ 1,489,748
Program services	1,740,723	-	-	1,740,723
Investment (losses) gains	1,161,826	-	25,644	1,187,470
Fundraising revenues	338,508	-	-	338,508
Donated equipment and supplies	5,662	-	-	5,662
Other revenue	6,237	-	-	6,237
TOTAL REVENUE AND OTHER SUPPORT	4,567,271	175,433	25,644	4,768,348
NET ASSETS RELEASED FROM RESTRICTIONS	122,955	(122,955)	-	-
TOTAL REVENUE AND RECLASSIFICATIONS	4,690,226	52,478	25,644	4,768,348
EXPENSES				
Program services	3,926,230	-	-	3,926,230
Management and general	272,094	-	-	272,094
Development	193,843	-	-	193,843
Fundraising	68,346	-	-	68,346
Volunteer	194,780	-	-	194,780
TOTAL EXPENSES	4,655,293	-	-	4,655,293
INCREASE IN NET ASSETS	34,933	52,478	25,644	113,055
CHANGE IN UNRECOGNIZED PENSION COSTS	(227,301)	-	-	(227,301)
NET ASSETS, BEGINNING OF YEAR	9,756,675	86,065	452,636	10,295,376
NET ASSETS, END OF YEAR	\$ 9,564,307	\$ 138,543	\$ 478,280	\$ 10,181,130

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
REVENUE AND OTHER SUPPORT				
Individual/group contributions	\$ 1,537,496	\$ 21,720	\$ -	\$ 1,559,216
Program services	1,719,810	-	-	1,719,810
Investment 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
TOTAL REVENUE AND OTHER SUPPORT	3,762,465	21,720	(29,709)	3,754,476
NET ASSETS RELEASED FROM RESTRICTIONS	58,608	(58,608)	-	-
TOTAL REVENUE AND RECLASSIFICATIONS	3,821,073	(36,888)	(29,709)	3,754,476
EXPENSES				
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
TOTAL EXPENSES	4,180,024	-	-	4,180,024
INCREASE (DECREASE) IN NET ASSETS	(358,951)	(36,888)	(29,709)	(425,548)
CHANGE IN UNRECOGNIZED PENSION COSTS	(40,497)	-	-	(40,497)
NET ASSETS, BEGINNING OF YEAR	10,156,123	122,953	482,345	10,761,421
NET ASSETS, END OF YEAR	\$ 9,756,675	\$ 86,065	\$ 452,636	\$ 10,295,376

**Western Pennsylvania Humane Society
Statement of Functional Expenses
For The Year Ended September 30, 2012**

	Program Services					Supporting Services				2012 Total	
	Pittsburgh Clinic	Outreach & Education	Operations Pittsburgh Shelter	Elizabeth Shelter Clinic & Cemetery	Total	Management and General	Development	Fundraising	Volunteer		Services Total
Salaries	\$ 172,215	\$ 348,072	\$ 742,787	\$ 232,052	\$ 1,792,025	\$ 157,467	\$ 74,853	\$ -	\$ 105,032	\$ 337,352	\$ 2,129,377
Payroll taxes and employee benefits	44,041	56,943	116,833	43,846	352,232	26,990	19,767	-	22,101	68,858	421,090
	216,256	405,015	859,620	275,898	2,144,257	184,457	94,620	-	127,133	406,210	2,550,467
Program purchases	81,489	162,978	421,027	122,234	964,288	27,163	27,163	67,739	40,745	162,810	1,127,098
Occupancy expenses	27,730	55,460	66,082	41,595	328,139	9,243	9,243	-	13,865	32,351	360,490
Pension	6,536	13,072	14,161	9,804	77,342	2,179	2,179	-	3,268	7,626	84,968
Repairs and maintenance	4,158	19,251	9,010	6,237	60,140	1,386	1,386	-	2,079	4,851	64,991
Professional services	3,412	11,226	3,680	5,219	68,043	26,397	6,237	-	-	32,634	100,677
Office expense	-	-	884	-	884	-	11,693	-	1,234	12,927	13,811
Trust and bank charges	-	-	-	-	-	172	-	-	-	172	172
Postage	-	624	1,760	-	3,029	682	35,309	607	-	36,598	40,227
Taxes and licenses	-	3,006	-	-	3,006	741	-	-	-	741	3,747
Auto expenses	22,467	-	-	-	22,467	-	-	-	-	-	22,467
Depreciation	-	-	167,567	11,576	179,143	-	-	-	-	-	179,143
Miscellaneous expense	-	-	-	-	-	-	6,013	-	-	-	6,013
Interest expense	-	-	-	-	-	19,674	-	-	-	-	19,674
	\$ 362,048	\$ 670,642	\$ 1,723,605	\$ 472,563	\$ 3,926,210	\$ 272,994	\$ 193,843	\$ 68,346	\$ 194,780	\$ 729,063	\$ 4,655,293

Western Pennsylvania Humane Society
Statement of Functional Expenses
For the Year Ended September 30, 2011

	Program Services						Supporting Services				2011 Total		
	Investigation	Pittsburgh Clinic	Adoption Customer Service	Outreach & Education	Operations Pittsburgh Shelter	Elizabeth Stelfer Clinic & Cemetery	Program Totals	Management and General	Development	Fundraising		Volunteer	Supporting Totals
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
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
	214,963	351,194	310,496	299,591	674,157	283,549	2,133,950	192,884	74,769	-	-	267,653	2,401,603
Program purchases	65,700	131,398	197,096	91,978	249,656	131,398	867,226	26,280	26,280	50,004	-	128,844	996,070
Occupancy expenses	20,447	40,895	61,342	28,626	77,700	40,895	269,905	8,179	8,179	-	-	24,537	294,442
Pension	5,067	10,134	15,200	7,694	19,254	10,134	66,881	2,027	2,027	-	-	6,081	72,964
Repairs and maintenance	2,090	12,902	7,469	3,486	9,461	4,979	40,787	996	996	-	-	2,988	43,775
Professional service	4,239	5,976	4,248	4,240	41,179	11,200	71,142	24,636	8,592	-	-	33,228	104,370
Office expense	-	-	-	-	-	-	-	7,764	7,764	-	-	7,764	7,764
Frust and bank charges	-	-	12,583	-	-	-	12,583	5,217	-	-	-	5,217	17,800
Postage	-	573	-	1,317	474	-	2,364	2,422	14,257	-	-	16,679	19,043
Taxes and licenses	-	-	-	-	-	-	3,829	7,305	-	-	-	7,305	11,134
Auto expenses	18,058	-	-	-	-	-	23,802	-	-	-	-	-	23,802
Depreciation	-	-	5,744	-	-	8,864	163,576	-	-	-	-	-	163,576
Miscellaneous expense	-	-	-	-	-	-	-	-	4,818	-	-	-	4,818
Interest expense	-	-	-	-	-	-	-	18,863	-	-	-	-	18,863
	\$ 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

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

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 113,055	\$ (425,548)
Adjustments to reconcile decrease in net assets to cash provided (used) in operating activities:		
Depreciation	179,143	163,576
Net realized and unrealized gains (losses) on long-term investments	(1,047,748)	188,982
Net pension benefit cost	17,318	38,208
(Increase) decrease in assets:		
Unconditional promise to give	181,521	(93,219)
Inventory	(48,838)	(77,539)
Prepaid expenses	4,425	(14,329)
Increase (decrease) in liabilities:		
Accounts payable	55,735	(61,679)
Accrued compensation and payroll taxes	8,843	(62,478)
Accrued liabilities	32,226	(4,767)
Accrued pension liability - non-qualified	(20,502)	(19,534)
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES	(524,822)	(368,327)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(309,884)	(132,787)
(Purchases of) proceeds from sales of long-term investments, net	644,280	682,249
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	334,396	549,462
CASH FLOWS FROM FINANCING ACTIVITIES		
Net principal payments on debt	(106,298)	(104,002)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(106,298)	(104,002)
NET INCREASE (DECREASE) IN CASH	(296,724)	77,133
CASH AT BEGINNING OF YEAR	508,081	430,948
CASH AT END OF YEAR	\$ 211,357	\$ 508,081
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 19,675	\$ 18,863
NON-CASH FINANCING ACTIVITIES		
Deferred pension benefit cost	\$ 227,301	\$ 40,497
Fixed assets purchased by long-term debt	\$ 134,259	\$ -

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

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, 2012 and 2011

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.

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 2 – Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The significant estimates in the financial statements are depreciable lives and estimated residual value of property and equipment and the allocation of expenses by function.

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 \$5,662 and \$5,039 for the years ended September 30, 2012 and 2011, respectively.

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, 2012, there was no cash in excess of federally insured limits.

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, 2012 and 2011

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.

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, 2012 and 2011 was \$179,143 and \$163,576, respectively. Maintenance and repairs are charged to expenses as incurred.

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, 2012 and 2011, the Society accrued \$73,310 and \$71,322, 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 accompanying Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited on the basis of direct labor, equivalent number of employees and actual purpose of the expenditure.

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

FASB ASC No. 740-10 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Society's tax return to determine whether tax positions have a "more-likely- than –not" probability of being sustained by the applicable tax authority.

The Society performed an evaluation of uncertain tax positions for the years ended September 30, 2012 and 2011, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of September 30, 2012, the statute of limitations for tax years 2009 through 2011 remain open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Society files tax returns. It is the Society's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of September 30, 2012 and 2011, the Society had no accruals for interest and/or penalties.

Consideration of Subsequent Events

Management has evaluated subsequent events in accordance with Accounting Standards Codification Topic 855, Subsequent Events, through February 15, 2013, which is the date the financial statements were available to be issued.

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 3 –Investments

The policy of the Society is to maintain its investment portfolio at 65% equities and 35% fixed income. Investments as of September 30, 2012, are summarized as follows:

	2012	
	Cost	Fair Value
Permanently Restricted:		
Government/corporate obligations	\$ 47,712	\$ 48,499
Money market funds	43,041	43,041
Common stocks with readily determinable fair values	49,735	52,872
Mutual funds	312,058	333,868
Permanently Restricted Total	452,546	478,280
Unrestricted:		
Government/corporate obligations	1,352,703	1,375,016
Money market funds	651,045	651,045
Common stocks with readily determinable fair values	1,818,878	2,051,410
Mutual funds	3,281,159	3,734,389
Unrestricted Total	7,103,785	7,811,860
Total	\$ 7,556,331	\$ 8,290,140

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 3 – Long Term Investments (Continued)

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>

Investment income and gains and losses on investments for the years ended September 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 186,645	\$ 247,278
Realized gains	854,564	148,427
Unrealized gains and (losses)	193,184	(189,946)
Trust & investment fees	<u>(46,923)</u>	<u>(16,777)</u>
	<u>\$ 1,187,470</u>	<u>\$ 188,982</u>

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

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, 2012 and 2011.

Government obligations – 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, 2012 and 2011

Note 5 – Property and Equipment

Property and equipment, which is stated at cost, consisted of the following classes of assets at September 30, 2012 and 2011:

	2012	2011
Land	\$ 273,396	\$ 178,396
Buildings	4,725,483	4,503,228
Automobiles and equipment	814,650	730,980
	5,813,529	5,412,604
Less accumulated depreciation	1,918,298	1,782,373
	\$ 3,895,231	\$ 3,630,231

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 (2.20% and 1.90% at September 30, 2012 and 2011 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, 2012 and 2011, the principal outstanding on the bonds amounted to \$1,000,000 and \$1,100,000, respectively.

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

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>	
2013	\$ 100,000
2014	100,000
2015	100,000
2016	100,000
Thereafter	<u>600,000</u>
	<u><u>\$ 1,000,000</u></u>

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 7 – Note Payable

Long-term debt consists of the following at September 30,

	2012	2011
A \$21,586 term loan dated August 20, 2009 due to #1 Cochran Robinson with an interest rate of 7.64% per annum. Payments are to be made in 60 monthly installments of \$436. The loan will mature on September 9, 2014.	\$ 9,258	\$ 13,578
A \$26,158 term loan dated June 21, 2012 due to First National Bank of Pennsylvania with an interest rate of 3.99% per annum. Payments are to be made in 60 monthly installments of \$482. The loan will mature on July 15, 2017.	25,432	-
A \$26,513 term loan dated June 21, 2012 due to First National Bank of Pennsylvania with an interest rate of 3.99% per annum. Payments are to be made in 60 monthly installments of \$488. The loan will mature on July 15, 2017.	25,778	-
An \$18,588 term loan dated June 21, 2012 due to First National Bank of Pennsylvania with an interest rate of 3.99% per annum. Payments are to be made in 60 monthly installments of \$342. The loan will mature on July 15, 2017.	18,071	-
	78,539	13,578
Less: current portion of long-term debt	(17,888)	(4,320)
	\$ 60,651	\$ 9,258

The required principal payments on long-term debt for the next five years as of September 30, are:

Year	Principal
2013	\$ 17,888
2014	18,361
2015	14,324
2016	15,432
2017	12,534
	\$ 78,539

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 8 – Operating Leases

The Society leases certain office equipment under non-cancelable operating leases. Lease expense for the years ended September 30, 2012 and 2011 totaled \$49,917 and \$35,650, respectively. Future minimum lease payments under leases that have terms in excess of one year are as follows:

<u>Years Ending September 30.</u>	
2013	\$ 39,776
2014	30,610
2015	19,786
2016	16,346
2017	15,670
	<hr/>
	\$ 122,188
	<hr/> <hr/>

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:

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 9 – Retirement Plans (Continued)

	<u>2012</u>	<u>2011</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 1,405,647	\$ 1,340,135
Interest cost	69,124	69,617
Actuarial (gain) loss	239,564	25,472
Benefits paid	<u>(35,585)</u>	<u>(29,577)</u>
Benefit obligations at end of year	1,678,750	1,405,647
Change in plan assets:		
Fair value of plan assets at beginning of year	819,049	832,242
Contributions	52,376	21,000
Actual gain on plan assets	11,693	(4,616)
Benefits paid	<u>(35,585)</u>	<u>(29,577)</u>
Fair value of plan assets at end of year	<u>847,533</u>	<u>819,049</u>
Funded status	<u>\$ (831,217)</u>	<u>\$ (586,598)</u>

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 9 – Retirement Plans (Continued)

	<u>2012</u>	<u>2011</u>
Funded status and net amounts recognized as of September 30:		
Plan assets less than benefit obligation	\$ (831,217)	\$ (586,598)
Unrecognized net actuarial loss	-	-
Unrecognized prior service cost (benefit)	-	-
	<u> </u>	<u> </u>
Net amount recognized	<u>\$ (831,217)</u>	<u>\$ (586,598)</u>
Amounts recognized as of September 30:		
Accrued benefit liability	\$ (831,217)	\$ (586,598)
Intangible asset	-	-
	<u> </u>	<u> </u>
Net amount recognized	<u>\$ (831,217)</u>	<u>\$ (586,598)</u>
Amounts included in unrecognized pension costs as of September 30:		
Deferred amendments	\$ 556,681	\$ 602,087
Deferred actuarial loss	93,152	(179,555)
	<u> </u>	<u> </u>
Net amount recognized	<u>\$ 649,833</u>	<u>\$ 422,532</u>

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 9 – Retirement Plans (Continued)

Net periodic benefit cost for the years ended September 30, 2012 and 2011 included the following components:

	<u>2012</u>	<u>2011</u>
Interest cost on projected benefit obligation	\$ 69,124	\$ 69,617
Prior service cost amortization	45,406	45,406
Actual return (loss) on assets	(4,057)	(12,551)
Expected return on assets	<u>(40,779)</u>	<u>(43,986)</u>
Net periodic benefit cost	<u>\$ 69,694</u>	<u>\$ 58,486</u>

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

2013	\$ 46,300
2014	45,900
2015	51,500
2016	72,300
2017	96,400
2018-2022	<u>490,000</u>
	<u>\$ 802,400</u>

	<u>2012</u>	<u>2011</u>
Weighted-average assumptions as of September 30:		
Discount rate to determine benefit obligations	3.75%	5.00%
Discount rate to determine net period benefit cost	5.00%	5.25%
Expected return on plan assets	5.00%	5.25%
Rate of compensation increase	N/A	N/A

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 9 – Retirement Plans (Continued)

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 \$159,474 and \$179,976 as of September 30, 2012 and 2011, respectively.

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 \$19,524 and \$23,613 for year ended September 30, 2012 and 2011, respectively.

Note 10 – Related Party Transaction

The Society had purchased a building from a company that is majority-owned by a member of the Society's board of directors. The Society has purchased this property with the intent of providing a cat adoption center, low cost spay and neuter and dog training. During the fiscal year ended September 30, 2012, the Society paid \$150,000 for the purchase of this building.

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 11 – Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Dog Park	\$ 118,000	\$ -
Veterans programs	12,506	5,000
Kenneth Scott Foundation cat cages	4,900	-
Ellie's Pet Pantry	3,137	500
Bite prevention education	-	18,183
Foster tech	-	17,667
Improvements for Fallen Timber shelter	-	15,459
Kenneth Scott boosting study	-	7,269
Saving animals from cruelty	-	6,795
Spay and neuter	-	3,993
Customer service	-	2,771
Shuman program	-	2,665
Betterment of cats	-	2,346
Phone system	-	1,550
Pitt bull enrichment	-	1,219
Miscellaneous programs	-	620
Investigations	-	28
	<u>\$ 138,543</u>	<u>\$ 86,065</u>

Western Pennsylvania Humane Society
Notes to Financial Statements
September 30, 2012 and 2011

Note 11 – 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:

	2012	2011
Funds expended for:		
Foster tech employment	\$ 32,667	\$ 43,840
Bite prevention education	18,183	5,386
Animal cruelty	8,014	4,695
Shuman program	3,115	4,687
Kenneth Scott boosting study	7,269	-
Fallen Timber renovations	21,459	-
Spay and neuter programs	10,058	-
Miscellaneous programs	3,419	-
Dog Park	7,000	-
Equipment - microscope, phones	3,650	-
Cat care	2,346	-
Calendar	3,000	-
Veterans program	2,494	-
Ellie's Pet Pantry	281	-
	\$ 122,955	\$ 58,608

Note 12 – 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. Interest and dividends are included as unrestricted revenue.