

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Animal Rescue League
of Western Pennsylvania, Inc.

We have audited the accompanying statement of financial position of The Animal Rescue League of Western Pennsylvania, Inc. as of December 31, 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 Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Animal Rescue League of Western Pennsylvania, Inc. as of December 31, 2010 were audited by other auditors whose report dated June 29, 2011 expressed an unqualified opinion on those 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 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 The Animal Rescue League of Western Pennsylvania, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sisterson & Co. LLP

May 1, 2012

THE ANIMAL RESCUE LEAGUE OF WESTERN PENNSYLVANIA, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 617,365	\$ 1,210,214
Accounts and contributions receivable	48,264	60,345
Inventories and prepaid expenses	87,378	99,169
Investments (Notes 3 and 4)	8,984,715	6,551,997
Interests in charitable trusts (Note 5)	833,350	912,943
Property and equipment, net (Note 6)	<u>2,441,017</u>	<u>2,274,064</u>
Total assets	<u>\$ 13,012,089</u>	<u>\$ 11,108,732</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable	\$ 84,034	\$ 119,224
Other accrued liabilities (Note 5)	<u>191,414</u>	<u>194,831</u>
Total liabilities	<u>275,448</u>	<u>314,055</u>
Net assets		
Unrestricted		
Undesignated	4,101,092	3,326,358
Board designated	<u>5,659,010</u>	<u>6,350,979</u>
Total unrestricted net assets	9,760,102	9,677,337
Temporarily restricted (Notes 5 and 7)	1,964,647	50,491
Permanently restricted (Notes 5 and 7)	<u>1,011,892</u>	<u>1,066,849</u>
Total net assets	<u>12,736,641</u>	<u>10,794,677</u>
Total liabilities and net assets	<u>\$ 13,012,089</u>	<u>\$ 11,108,732</u>

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

THE ANIMAL RESCUE LEAGUE OF WESTERN PENNSYLVANIA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating support and revenues				
Holding and adoption fees (Note 10)	\$ 734,930	\$ --	\$ --	\$ 734,930
Veterinary	494,080	--	--	494,080
Rosedale Kennels	81,806	--	--	81,806
Gift shop	17,981	--	--	17,981
Memberships	100,976	--	--	100,976
Contributions	1,403,252	2,091,577	--	3,494,829
Direct mail fundraising, net of direct costs of \$156,508	452,077	--	--	452,077
Net assets released from restrictions	183,350	(183,350)	--	--
	<u>3,468,452</u>	<u>1,908,227</u>	<u>--</u>	<u>5,376,679</u>
Total operating support and revenues				
Expenses				
Programs	2,704,811	--	--	2,704,811
Fundraising	345,295	--	--	345,295
Management and general	390,448	--	--	390,448
	<u>3,440,554</u>	<u>--</u>	<u>--</u>	<u>3,440,554</u>
Total expenses				
Increase in net assets from operations				
	<u>27,898</u>	<u>1,908,227</u>	<u>--</u>	<u>1,936,125</u>
Non-operating income (loss)				
Investment return (Note 3)	72,412	8,371	12,947	93,730
Increase (decrease) in value of charitable trusts (Note 5)	--	(2,442)	(67,904)	(70,346)
Loss on disposal of property and equipment	(17,545)	--	--	(17,545)
	<u>82,765</u>	<u>1,914,156</u>	<u>(54,957)</u>	<u>1,941,964</u>
Increase (decrease) in net assets				
Net assets, beginning of year	<u>9,677,337</u>	<u>50,491</u>	<u>1,066,849</u>	<u>10,794,677</u>
Net assets, end of year	<u>\$ 9,760,102</u>	<u>\$ 1,964,647</u>	<u>\$ 1,011,892</u>	<u>\$ 12,736,641</u>

The accompanying notes are an integral part of this financial statement.

THE ANIMAL RESCUE LEAGUE OF WESTERN PENNSYLVANIA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating support and revenues				
Holding and adoption fees (Note 10)	\$ 665,875	\$ --	\$ --	\$ 665,875
Veterinary	458,936	--	--	458,936
Rosedale Kennels	94,253	--	--	94,253
Gift shop	16,750	--	--	16,750
Memberships	84,856	--	--	84,856
Contributions	1,112,660	3,619	--	1,116,279
Direct mail fundraising, net of direct costs of \$120,565	491,663	--	--	491,663
Net assets released from restrictions	21,180	(21,180)	--	--
	<u>2,946,173</u>	<u>(17,561)</u>	<u>--</u>	<u>2,928,612</u>
Total operating support and revenues				
Expenses				
Programs	2,493,708	--	--	2,493,708
Fundraising	215,406	--	--	215,406
Management and general	382,482	--	--	382,482
	<u>3,091,596</u>	<u>--</u>	<u>--</u>	<u>3,091,596</u>
Total expenses				
Decrease in net assets from operations				
	<u>(145,423)</u>	<u>(17,561)</u>	<u>--</u>	<u>(162,984)</u>
Non-operating income (loss)				
Investment return (Note 3)	621,622	--	(4,648)	616,974
Increase (decrease) in value of charitable trusts (Note 5)	--	(3,888)	59,556	55,668
	<u>476,199</u>	<u>(21,449)</u>	<u>54,908</u>	<u>509,658</u>
Increase (decrease) in net assets				
Net assets, beginning of year	<u>9,201,138</u>	<u>71,940</u>	<u>1,011,941</u>	<u>10,285,019</u>
Net assets, end of year	<u>\$ 9,677,337</u>	<u>\$ 50,491</u>	<u>\$ 1,066,849</u>	<u>\$ 10,794,677</u>

The accompanying notes are an integral part of this financial statement.

THE ANIMAL RESCUE LEAGUE OF WESTERN PENNSYLVANIA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2011

	Program Expenses							Management and General	Total Expenses
	Holding and Adoption	Veterinary	Rosedale Kennels	Wildlife Center	Gift Shop	Fundraising			
Payroll and related expenses	\$ 805,786	\$ 667,904	\$ 80,289	\$ 109,303	\$ --	\$ 145,661	\$ 267,243	\$ 2,076,186	
Professional fees	--	--	--	--	--	--	15,364	15,364	
Supplies	129,282	437,833	7,230	13,905	4,649	1,333	38,322	632,554	
Telephone	--	16,973	1,860	1,173	--	--	2,471	22,477	
Repairs and maintenance	65	62,740	4,263	9,136	--	--	--	76,204	
Transportation and fuel	2,169	--	6,775	--	--	--	--	8,944	
Consultants	--	--	--	2,971	--	--	11,433	14,404	
Insurance	3,234	17,117	2,327	2,012	--	--	1,172	25,862	
Advertising	986	--	725	--	--	59,856	397	61,964	
Fundraisers	--	--	--	340	--	86,342	--	86,682	
Outside medical services	431	33,021	--	415	--	--	--	33,867	
Utilities	--	79,367	11,766	18,492	--	--	--	109,625	
Bank fees	--	--	--	--	--	--	34,079	34,079	
Newsletter	--	--	--	--	--	28,653	--	28,653	
Miscellaneous	15,447	20,487	1,487	6,250	--	22,131	16,011	81,813	
Total expenses before depreciation	957,400	1,335,442	116,722	163,997	4,649	343,976	386,492	3,308,678	
Depreciation	76,488	26,375	10,550	13,188	--	1,319	3,956	131,876	
Total expenses	\$ 1,033,888	\$ 1,361,817	\$ 127,272	\$ 177,185	\$ 4,649	\$ 345,295	\$ 390,448	\$ 3,440,554	

The accompanying notes are an integral part of this financial statement.

THE ANIMAL RESCUE LEAGUE OF WESTERN PENNSYLVANIA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010

	Program Expenses							Management and General	Total Expenses
	Holding and Adoption	Veterinary	Rosedale Kennels	Wildlife Center	Gift Shop	Fundraising			
Payroll and related expenses	\$ 744,715	\$ 618,990	\$ 63,686	\$ 78,327	\$ --	\$ 133,761	\$ 225,286	\$ 1,864,765	
Professional fees	--	--	--	--	--	--	17,945	17,945	
Supplies	94,181	401,650	15,914	4,501	10,656	168	20,233	547,303	
Telephone	60	16,642	1,304	490	--	--	1,648	20,144	
Repairs and maintenance	--	86,225	4,953	8,239	--	--	--	99,417	
Transportation and fuel	4,329	--	6,115	--	--	--	--	10,444	
Consultants	--	--	--	6,124	--	1,813	47,996	55,933	
Insurance	3,315	20,611	1,935	991	--	--	--	26,852	
Advertising	6,993	--	2,757	621	--	11,739	--	22,110	
Fundraisers	--	--	--	798	--	21,303	--	22,101	
Outside medical services	23,515	9,730	--	240	--	--	--	33,485	
Utilities	--	89,318	15,378	18,423	--	--	--	123,119	
Miscellaneous	7,206	13,117	1,934	6,121	--	45,543	66,136	140,057	
Total expenses before depreciation	884,314	1,256,283	113,976	124,875	10,656	214,327	379,244	2,983,675	
Depreciation	62,594	21,584	8,634	10,792	--	1,079	3,238	107,921	
Total expenses	\$ 946,908	\$ 1,277,867	\$ 122,610	\$ 135,667	\$ 10,656	\$ 215,406	\$ 382,482	\$ 3,091,596	

The accompanying notes are an integral part of this financial statement.

THE ANIMAL RESCUE LEAGUE OF WESTERN PENNSYLVANIA, INC.

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	<u>2011</u>	<u>2010</u>
Cash provided by operating activities		
Increase in net assets	\$ 1,941,964	\$ 509,658
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	131,876	107,921
Loss from disposal of property and equipment	17,545	--
Net (appreciation) depreciation in fair value of investments	251,037	(502,170)
Net change in charitable trusts	79,593	(43,865)
Changes in assets and liabilities		
Accounts and contributions receivable	12,081	153,699
Inventories and prepaid expenses	11,791	(15,567)
Accounts payable	(35,190)	(26,286)
Other liabilities	(3,417)	24,377
	<u>2,407,280</u>	<u>207,767</u>
Cash flows provided by (used in) investing activities		
Purchase of property and equipment	(316,374)	(536,476)
Purchases of investments	(7,078,167)	(690,427)
Proceeds from sale of investments	4,394,412	1,574,883
	<u>(3,000,129)</u>	<u>347,980</u>
Increase (decrease) in cash and cash equivalents	(592,849)	555,747
Cash and cash equivalents, beginning of year	<u>1,210,214</u>	<u>654,467</u>
Cash and cash equivalents, end of year	<u>\$ 617,365</u>	<u>\$ 1,210,214</u>

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

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ANIMAL RESCUE LEAGUE OF WESTERN PENNSYLVANIA

The Animal Rescue League of Western Pennsylvania, Inc. ("The Animal Rescue League") operates facilities which provide humane care for stray animals and animals turned in by the public. Primary services provided include domestic animal holding and adoption and veterinary care. Low cost veterinary services, kennel services, animal burial services, and education support are also provided to the general public. The Animal Rescue League also operates The Animal Rescue League Wildlife Center ("Wildlife Center"), which treats and later releases injured wildlife and provides educational services.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The activities of The Animal Rescue League are separated into operating and non-operating categories in the statements of activities. The non-operating category includes investment returns and the changes in charitable trusts.

Under accounting principles generally accepted in the United States of America, The Animal Rescue League is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

Unrestricted net assets

These net assets are not subject to donor-imposed stipulations.

Board designated net assets

For the years ended December 31, 2011 and 2010, The Animal Rescue League's Board of Directors has designated \$5,659,010 and \$6,350,979, respectively, of funds to cover short term operating and program expenses and for the renovation, replacement and expansion of facilities, as necessary. These amounts are reflected as Board designated net assets in the statements of financial position.

Temporarily restricted net assets

These net assets are subject to donor-imposed stipulations that may or will be met, either by actions of The Animal Rescue League and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. These net assets are available for various donor-designated programs (see Note 7).

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

Permanently restricted net assets

These net assets are subject to donor-imposed stipulations that they be maintained permanently by The Animal Rescue League. The donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes of The Animal Rescue League (see Note 7).

A portion of The Animal Rescue League's net assets are donor-restricted endowment funds, which are governed by the Commonwealth of Pennsylvania's Act 141. The Animal Rescue League's interpretation of Pennsylvania law and other required endowment disclosures are included in Note 8.

Revenue recognition

Revenue, including holding and adoption fees and veterinary services, is recognized when earned.

Contract revenue, primarily from the City of Pittsburgh (Note 10), is recognized when earned under the terms of the contract.

Contributions

Unconditional promises to give are recorded at fair value as of the date of pledge. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at December 31, 2011 and 2010.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. 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 received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

The Animal Rescue League receives a significant portion of its contribution revenue from bequests. Bequests are recorded when The Animal Rescue League has been notified of its interest in an estate, the will has been declared valid and there is an unconditional right to a distribution from the estate. Contributions in the statements of activities include bequests of approximately \$2,541,000 in 2011 and \$568,000 in 2010. The 2011 bequests include a \$2,000,000 contribution which is restricted to use by the Wildlife Center.

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services

Contributed services are recorded as contributions at their estimated fair value and consist primarily of donated legal services. Total contributed services were immaterial in 2011 and 2010.

In addition, many individuals volunteer their time and perform a variety of tasks that assist The Animal Rescue League. These services do not meet the criteria for recognition in the statements of activities.

Cash and cash equivalents

The Animal Rescue League considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certificates of deposit held for investment that are not debt securities are included in investments.

Substantially all of The Animal Rescue League's cash and cash equivalents are on deposit in primarily three financial institutions. From time to time, the balance may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Accounts and contributions receivable

Accounts and contributions receivable consist of contract revenue and contributions receivable. All contributions receivable for the years ended December 31, 2011 and 2010 were receivable in less than one year. Management assesses the need for an allowance for doubtful accounts based upon review of outstanding receivables and collection history. No allowance was considered necessary at December 31, 2011 and 2010.

Inventories

Inventories are stated at the lower of cost or market and consist principally of gift shop items held for sale and supplies used in the operation of the kennel and veterinary clinic. Inventories were approximately \$57,000 at December 31, 2011 and \$73,000 at December 31, 2010.

Investments

Investments are reported at their fair values. The fair values of cash, money market funds and certificates of deposits approximate their cost. Investments in common stocks and equity mutual funds with readily determinable fair values and investments in corporate debt securities and U.S. Treasuries and government obligations are stated at fair value, primarily based on quoted market prices.

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Realized gains and losses on disposals of investments are determined by the specific identification method. Interest and dividend income are recognized on the accrual basis.

Net appreciation or depreciation on investments, consisting of realized and unrealized gains and losses, along with interest and dividend income and changes in charitable trusts, are reported in the statements of activities as non-operating income.

The Animal Rescue League's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in the near term could materially affect the amounts reported in the financial statements.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method based on the estimated useful lives ranging from three years for certain equipment to forty years for buildings and improvements. Maintenance and repairs which are not considered to extend the useful lives of assets are charged to expense as incurred. Expenditures for additions and improvements are capitalized. The cost of property sold or retired and the related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in non-operating income.

Allocation of functional expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific program or supporting service are charged directly to that program or support service. Costs common to multiple programs or supporting services have been allocated among the functions benefited based on management estimates of time, space utilization, or other rational means.

Tax-exempt status

The Animal Rescue League has been classified as a tax-exempt non-profit organization under Section 501(c) (3) of the Internal Revenue Code. However, certain activities are deemed to be taxable. These activities generated losses in 2011 and 2010. Accordingly, no provision for Federal income tax is required.

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax-exempt status (continued)

At December 31, 2010, net operating loss carryforwards of approximately \$649,000 are available to offset any future taxable income. A valuation allowance has been recorded for the full amount of the benefit of net operating losses because of uncertainty about generating future taxable income.

The Financial Accounting Standards Board Accounting Standards Codification on Income Taxes clarifies recognition, measurement, presentation and disclosure relating to uncertain tax positions. The Animal Rescue League evaluates uncertain tax positions for recognition by determining whether evidence indicates it is more likely than not that a position will not be sustained if examined by taxing authorities. As of December 31, 2011 and 2010, The Animal Rescue League is unaware of any uncertain tax positions. The Animal Rescue League's tax returns for tax years 2008 and beyond remain subject to examination by the Internal Revenue Service.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts previously reported in the December 31, 2010 financial statements have been reclassified for comparative purposes.

Subsequent events

Management evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through May 1, 2012, the day the financial statements were approved and authorized for issue.

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 3 - INVESTMENTS

Investments consist of the following at December 31:

	<u>2011</u>		<u>2010</u>	
	Cost	Fair value	Cost	Fair value
Cash	\$ 405,805	\$ 405,805	\$ 375,324	\$ 375,324
Money market funds	3,276,024	3,276,024	--	--
Certificates of deposit	272,639	272,639	264,590	264,590
Common stocks	2,133,951	2,387,279	1,449,622	1,814,958
Equity mutual funds	1,062,092	1,078,455	1,304,911	1,485,310
Corporate debt	1,407,046	1,547,808	1,706,268	1,805,186
U.S. Treasuries and government obligations	10,101	12,705	786,449	802,629
Real estate	4,000	4,000	4,000	4,000
 Total investments	 <u>\$ 8,571,658</u>	 <u>\$ 8,984,715</u>	 <u>\$ 5,891,164</u>	 <u>\$ 6,551,997</u>

Net investment income, for the years ended December 31, 2011 and 2010, consists of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 179,744	\$ 166,319
Realized gains (losses)	196,466	(15,353)
Investment expenses	<u>(31,443)</u>	<u>(36,162)</u>
	344,767	114,804
Change in unrealized appreciation in fair value of investments	<u>(251,037)</u>	<u>502,170</u>
 Total	 <u>\$ 93,730</u>	 <u>\$ 616,974</u>

Investment income is reported in non-operating income in the statements of activities and changes in net assets.

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 4 - FAIR VALUE MEASUREMENTS

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on the extent of market price observability:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include cash, money market funds, common stocks and mutual funds.

Level II – Pricing inputs are other than quoted market prices included in Level I, however are observable indirectly for the investment. The types of investments in Level II include certificates of deposit, corporate debt and U.S. Treasuries and government obligations.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The types of investments in Level III include real estate and interests in charitable trusts.

The valuation of The Animal Rescue League’s investments by the above fair value hierarchy levels are as follows as of December 31:

	2011			
	Level I	Level II	Level III	Total
Cash	\$ 405,805	\$ --	\$ --	\$ 405,805
Money market funds	3,276,024	--	--	3,276,024
Certificates of deposit	--	272,639	--	272,639
Common stocks				
Domestic	2,145,833	--	--	2,145,833
International	241,446	--	--	241,446
Equity mutual funds				
Domestic	899,148	--	--	899,148
International	179,307	--	--	179,307
Corporate debt - domestic	--	1,547,808	--	1,547,808
U.S. Treasuries and government obligations	--	12,705	--	12,705
Real estate	--	--	4,000	4,000
Total investments	7,147,563	1,833,152	4,000	8,984,715
Interests in charitable trusts	--	--	833,350	833,350
	<u>\$ 7,147,563</u>	<u>\$ 1,833,152</u>	<u>\$ 837,350</u>	<u>\$ 9,818,065</u>

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

	2010			
	Level I	Level II	Level III	Total
Cash	\$ 375,324	\$ --	\$ --	\$ 375,324
Certificates of deposit	--	264,590	--	264,590
Common stocks				
Domestic	1,767,065	--	--	1,767,065
International	47,893	--	--	47,893
Equity mutual funds				
Domestic	1,302,575	--	--	1,302,575
International	182,735	--	--	182,735
Corporate debt - domestic	--	1,805,186	--	1,805,186
U.S. Treasuries and government obligations	--	802,629	--	802,629
Real estate	--	--	4,000	4,000
	<u>3,675,592</u>	<u>2,872,405</u>	<u>4,000</u>	<u>6,551,997</u>
Interests in charitable trusts	--	--	912,943	912,943
	<u>\$ 3,675,592</u>	<u>\$ 2,872,405</u>	<u>\$ 916,943</u>	<u>\$ 7,464,940</u>

NOTE 5 - INTERESTS IN CHARITABLE TRUSTS

Interests in charitable trusts consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Charitable remainder annuity trust	\$ 44,152	\$ 55,841
Perpetual trusts	<u>789,198</u>	<u>857,102</u>
Total	<u>\$ 833,350</u>	<u>\$ 912,943</u>

The Animal Rescue League administers a charitable remainder annuity trust. The trust provides for the payment of distributions to a designated beneficiary over the beneficiary's lifetime. At the termination of the trust, the remaining assets are available for The Animal Rescue League's unrestricted use. The establishment of the trust was recorded as a temporarily restricted contribution. Changes in the fair value of the trust assets and liability are recorded in temporarily restricted net assets.

The beneficial interest in the charitable trust represents the fair value of the assets in trust. The present value of the income rights of the beneficiary of approximately \$43,000 at December 31, 2011 and \$56,000 at December 31, 2010 is included in other liabilities on the statements of financial position. The discount rate used in calculating the liability was 6% in 2011 and 2010.

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 5 - INTERESTS IN CHARITABLE TRUSTS (continued)

The Animal Rescue League is a beneficiary of three perpetual charitable trusts. Under the trust agreements, The Animal Rescue League has the irrevocable right to receive its share of the income earned on trust assets in perpetuity, but has no right to or control over the corpus of the trusts. The beneficial interests in the trusts were recorded originally as changes in permanently restricted net assets at the fair market value of the assets in the trusts. Changes in fair value of the trust assets are recorded in permanently restricted net assets based on the Animal Rescue League's beneficial interest in the trust underlying assets. Interest and dividend income is available for The Animal Rescue League's use and is reflected as an increase in unrestricted net assets.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 330,978	\$ 330,978
Building and improvements	2,840,490	2,736,003
Equipment	947,380	846,406
Automobiles	<u>46,536</u>	<u>81,060</u>
	4,165,384	3,994,447
Less: accumulated depreciation	<u>1,724,367</u>	<u>1,720,383</u>
Property and equipment, net	<u>\$ 2,441,017</u>	<u>\$ 2,274,064</u>

The Animal Rescue League's Board of Directors has established a policy to designate a portion of its net assets for the renovation, replacement and expansion of facilities.

THE ANIMAL RESCUE LEAGUE OF
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NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 7 - NET ASSETS

Restrictions on The Animal Rescue League's assets consist of temporary and permanent restrictions as follows at December 31:

	2011	2010
Temporarily restricted net assets		
Purpose restrictions		
Wildlife center	\$ 1,868,651	\$ --
Humane education and community outreach coordinator	80,000	--
Cat adoption center	--	27,600
Other	15,211	22,837
Beneficial interest in trust (Note 5)	785	54
Total	\$ 1,964,647	\$ 50,491
Permanently restricted net assets		
Verbofsky fund	\$ 222,694	\$ 209,747
Interest in perpetual trusts (Note 5)	789,198	857,102
Total	\$ 1,011,892	\$ 1,066,849

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 8 - ENDOWMENT FUNDS

The endowment funds consist of donor-restricted funds. Net assets associated with endowment funds are classified based on the existence or absence of donor-imposed restrictions as required by generally accepted accounting principles.

Changes in endowment net assets for the years ended December 31, 2011 and 2010 are as follows:

	Permanently Restricted
Balance - January 1, 2010	\$ 1,011,941
Investment income, net	(4,648)
Net appreciation	59,556
Balance - December 31, 2010	1,066,849
Investment income, net	12,947
Net depreciation	(67,904)
Balance - December 31, 2011	\$ 1,011,892

To satisfy its long-term rate-of-return objectives, The Animal Rescue League relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Animal Rescue League established asset allocations percentages for its investment account. The target asset allocations are based on the investment objective, time horizon and risk tolerance established for the account.

The Animal Rescue League has interpreted Pennsylvania law as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. Based on this interpretation, The Animal Rescue League classifies as permanently restricted net assets the original value of the gift, the original value of any subsequent gifts to the permanent endowment and accumulations made in accordance with the direction of the donor gift instrument. The remaining portion of the donor-restricted endowment funds is classified as unrestricted or temporarily restricted donor net assets as required by the donor.

The Verbofsky agreement stipulated that all realized investment returns be utilized for animal care.

THE ANIMAL RESCUE LEAGUE OF
WESTERN PENNSYLVANIA, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 9 - OPERATING LEASES

The Animal Rescue League leases certain office equipment under operating lease agreements. Future rental payments due under noncancelable leases are as follows for the years ending December 31:

2012	\$	23,064
2013		21,155
2014		21,155
2015		10,836
2016		<u>558</u>
Total	\$	<u>76,768</u>

Rent expense totaled approximately \$27,000 in 2011 and \$15,600 in 2010.

NOTE 10 - CONTRACTUAL AGREEMENT

The City of Pittsburgh delivers stray animals to The Animal Rescue League under a contractual arrangement whereby a fee is received for each animal. Revenues related to this contract were approximately \$364,000 in 2011 and \$323,000 in 2010, and are included in holding and adoption fees in the statements of activities.

NOTE 11 - RETIREMENT ARRANGEMENT

The Animal Rescue League has a 401(k) profit sharing plan covering substantially all employees under which eligible employees may contribute a portion of their eligible earnings to the plan, not to exceed \$8,000. The Animal Rescue League is required to make matching contributions equal to the amount of each participant's elective deferrals up to 3% of compensation. Contributions by The Animal Rescue League totaled approximately \$23,000 for 2011 and \$15,000 for 2010.

THE ANIMAL RESCUE LEAGUE OF
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NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 12 - RELATED PARTIES

Certain members of the Board of Directors (2), or their employers (1), provide services to The Animal Rescue League. The total value of those services was as follows:

	<u>2011</u>	<u>2010</u>
(1) Building HVAC	\$ 15,847	\$ 16,108
(2) Veterinary	5,714	26,320
(1) Investment services	3,633	13,108
(2) Legal	<u>--</u>	<u>460</u>
	<u>\$ 25,194</u>	<u>\$ 55,996</u>

