

POTSDAM HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Potsdam Humane Society, Inc.
Potsdam, New York

I have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of Potsdam Humane Society, Inc. (a nonprofit organization) as of December 31, 2011 and the related statements of revenue, expenses, and change in net assets – modified cash basis for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of Potsdam Humane Society, Inc. as of December 31, 2010, were audited by other auditors whose report dated November 14, 2011, expressed an unqualified opinion on those statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As described in Note A, these financial statements were prepared on the modified cash accounting basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Potsdam Humane Society, Inc. as of December 31, 2011 and its revenues, expenses and change in net assets for the year then ended, on the basis of accounting described in Note A.

John C. Parcell IV, CPA, CFE

August 30, 2012

POTSDAM HUMANE SOCIETY, INC.

COMPARATIVE STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
 MODIFIED CASH BASIS
 DECEMBER 31 2011 AND 2010

ASSETS	12/31/2011	12/31/2010
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 72,526	\$ 40,305
Temporarily Restricted Cash and Cash Equivalents	8,892	372,431
Total Current Assets	\$ 81,418	\$ 412,736
FIXED ASSETS:		
Land and Building	\$ 1,282,297	\$ 256,935
Equipment	58,109	52,296
Construction in Progress	-0-	72,116
Total Fixed Assets	\$ 1,340,406	\$ 381,347
Accumulated Depreciation	152,461	131,609
Net Fixed Assets	\$ 1,187,945	\$ 249,738
OTHER ASSETS:		
Investments	\$ 120,780	\$ 132,230
TOTAL	\$ 1,390,143	\$ 794,704
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Payroll Taxes Payable	\$ 3,566	\$ 2,393
Sales Tax Payable	41	37
Mortgage Payable - Current Portion	7,917	-0-
Total Current Liabilities	\$ 11,524	\$ 2,430
MORTGAGE PAYABLE	424,023	-0-
Total Liabilities	\$ 435,547	\$ 2,430
NET ASSETS:		
Unrestricted	\$ 855,704	\$ 330,039
Temporarily Restricted	8,892	372,429
Permanently Restricted	90,000	89,806
Total Net Assets	\$ 954,596	\$ 792,274
TOTAL	\$ 1,390,143	\$ 794,704

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

POTSDAM HUMANE SOCIETY, INC.

COMPARATIVE STATEMENTS OF UNRESTRICTED REVENUES AND EXPENSES
 MODIFIED CASH BASIS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	12/31/2011			
	Unrestricted	Temporarily	Permanently	Total
CHANGES IN UNRESTRICTED NET ASSETS:				
REVENUES, GAINS, AND OTHER SUPPORT:				
Shelter Income	\$ 61,826	\$ -0-	\$ -0-	\$ 61,826
Contributions and Support	111,204	52,424	-0-	163,628
Grant Income	91,000	-0-	-0-	91,000
Town Contracts	95,474	-0-	-0-	95,474
Interest Income	715	-0-	-0-	715
Dividend Income	5,635	-0-	-0-	5,635
Capital Gain	137	-0-	-0-	137
Gain on Sale of Securitie	2,996	-0-	-0-	2,996
Other Misc Income	80	-0-	-0-	80
Reclassifications - Net Assets Released from Restrictions	415,767	(415,961)	194	-0-
Total Revenue, Gains and Other Support	\$ 784,834	\$ (363,537)	\$ 194	\$ 421,491
OPERATING EXPENSES:				
Salary and Wages	116,977	\$ -0-	\$ -0-	\$ 116,977
Payroll Taxes	8,938	-0-	-0-	8,938
Animal Related Expenses	51,425	-0-	-0-	51,425
Advertising	-0-	-0-	-0-	-0-
Bank/Credit Card Fees	734	-0-	-0-	734
Dues & Subscriptions	216	-0-	-0-	216
Equipment Expense	446	-0-	-0-	446
Fundraising Activities	10,561	-0-	-0-	10,561
Insurance	10,144	-0-	-0-	10,144
Licenses, Permits, Fees	125	-0-	-0-	125
Misc Expense	(233)	-0-	-0-	(233)
Office Supplies/Expense	1,967	-0-	-0-	1,967
Professional Fees	1,495	-0-	-0-	1,495
Repairs and Maintenance	9,344	-0-	-0-	9,344
Telephone and Internet	2,582	-0-	-0-	2,582
Travel	1,627	-0-	-0-	1,627
Utilities	19,378	-0-	-0-	19,378
Waste Removal	2,590	-0-	-0-	2,590
Depreciation	20,853	-0-	-0-	20,853
Total Operating Expenses	\$ 259,169	\$ -0-	\$ -0-	\$ 259,169
CHANGE IN NET ASSETS	\$ 525,665	\$ (363,537)	\$ 194	\$ 162,322
NET ASSETS - Beginning of Year	330,039	372,429	89,806	792,274
NET ASSETS - END OF YEAR	\$ 855,704	\$ 8,892	\$ 90,000	\$ 954,596

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

POTSDAM HUMANE SOCIETY, INC.

COMPARATIVE STATEMENTS OF UNRESTRICTED REVENUES AND EXPENSES
 MODIFIED CASH BASIS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	12/31/2010			
	Unrestricted	Temporarily	Permanently	Total
CHANGES IN UNRESTRICTED NET ASSETS:				
REVENUES, GAINS, AND OTHER SUPPORT:				
Shelter Income	\$ 65,724	\$ -0-	\$ -0-	\$ 65,724
Contributions and Support	54,627	150,291	-0-	204,918
Fundraising Activities	14,101	-0-	-0-	14,101
Grant Income	1,500	-0-	-0-	1,500
Town Contracts	93,574	-0-	-0-	93,574
Interest Income	1,263	-0-	-0-	1,263
Dividend Income	101	5,569	-0-	5,670
Capital Gain	-0-	-0-	-0-	-0-
Gain on Sale of Securitie	-0-	-0-	-0-	-0-
Other Misc Income	16	-0-	-0-	16
Reclassifications - Net Assets Released from Restrictions	59,239	(59,239)	-0-	-0-
Total Revenue, Gains and Other Support	\$ 290,145	\$ 96,621	\$ -0-	\$ 386,766
OPERATING EXPENSES:				
Salary and Wages	\$ 93,689	\$ -0-	\$ -0-	\$ 93,689
Payroll Taxes	8,750	-0-	-0-	8,750
Animal Related Expenses	54,925	-0-	-0-	54,925
Advertising	-0-	-0-	-0-	-0-
Bank/Credit Card Fees	-0-	-0-	-0-	-0-
Dues & Subscriptions	332	-0-	-0-	332
Equipment Expense	-0-	-0-	-0-	-0-
Fundraising Activities	9,473	-0-	-0-	9,473
Insurance	10,313	-0-	-0-	10,313
Licenses, Permits, Fees	125	-0-	-0-	125
Misc Expense	1,448	-0-	-0-	1,448
Office Supplies/Expense	715	-0-	-0-	715
Professional Fees	5,844	-0-	-0-	5,844
Repairs and Maintenance	4,829	-0-	-0-	4,829
Telephone and Internet	1,748	-0-	-0-	1,748
Travel	1,410	-0-	-0-	1,410
Utilities	13,826	-0-	-0-	13,826
Waste Removal	-0-	-0-	-0-	-0-
Depreciation	9,378	-0-	-0-	9,378
Total Operating Expenses	\$ 216,805	\$ -0-	\$ -0-	\$ 216,805
CHANGE IN NET ASSETS	\$ 73,340	\$ 96,621	\$ -0-	\$ 169,961
NET ASSETS - Beginning of Year	256,699	275,808	89,806	622,313
NET ASSETS - END OF YEAR	\$ 330,039	\$ 372,429	\$ 89,806	\$ 792,274

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

POTSDAM HUMANE SOCIETY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Potsdam Humane Society, Inc. is a non-profit organization as outlined under 501(c)(3) of the Internal Revenue Code and operates an animal shelter in Potsdam, New York.

The organization was incorporated in the State of New York on March 26, 1957.

Basis of Presentation

Potsdam Humane Society, Inc. follows the presentation formats prescribed for not-for-profit organizations. Therefore, its net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor imposed restrictions.

Temporarily Restricted Net Assets – Net assets that are available for use, but only for the purposes specified by the donor(s).

Permanently Restricted Net Assets – Net assets subject to donor imposed restrictions which require those assets to be maintained permanently by the Organization.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligations are incurred. Consequently, the Potsdam Humane Society, Inc. has not recognized the changes in the fair value of securities which are recognized when realized, the pledges receivable from donors, accounts payable to vendors, and their related effects on the changes in net assets in the accompanying financial statements.

Support and Revenue

Potsdam Humane Society, Inc. contracts with ten townships to provide animal control and investigate reports of animal cruelty. For a small fee to help cover shelter costs, the organization accepts cats and dogs from the public who reside in towns where no contract exists. Adoptable animals are provided to the general public for a small fee. Donations from the general public are collected to help fund daily operations.

**POTSDAM HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 (Continued):**

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of 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.

Investments

Investments are carried at cost. The Potsdam Humane Society, Inc. invests in common stocks and mutual funds whose market value is quoted on various exchanges. (See Note D)

Property and Equipment

Property and equipment are stated at cost as of the date of acquisition. The Potsdam Humane Society, Inc. capitalizes property and equipment with a cost in excess of \$ 1,000 and an estimated useful life of 5 years or more. Depreciation is provided by the straight line method over the estimated useful life of the asset ranging from 5 to 40 years. Depreciation expense for the years ended December 31, 2011 and 2010 was \$ 20,853 and 9,378.

Maintenance and repairs are charged to operations when incurred. When depreciable assets are sold or retired, the cost and related accumulated depreciation are removed from the records with the resulting gain or loss credited or charged to income. Maintenance and repairs expenses for the years ended December 31, 2011 and 2010 were \$ 1,102 and \$ 692, respectively.

Income Taxes

The Potsdam Humane Society, Inc. is a not-for-profit corporation established under the laws of the State of New York. The Corporation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Corporation is classified as being other than a private foundation as described in section 170 (b) (1) (A) (vi).

The Organization files Forms 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service. The returns are generally subject to examination by the Internal Revenue Service for three years after they are filed.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and savings instruments with a maturity of less than three months. As of December 31, 2011, the Organization had no deposits in excess of the current FDIC limit of \$ 250,000.

**POTSDAM HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 (Continued):**

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has reviewed and evaluated all events and transactions from January 1, 2012 to August 30, 2012 for possible disclosure and recognitions in the financial statements. There were no events or transactions that existed which would provide additional pertinent information about conditions at the date of the financial statements required to be recognized or disclosed in the accompanying financial statements.

NOTE B -- FAIR VALUE MEASUREMENTS

Fair Value Measurement

The Potsdam Humane Society, Inc utilizes fair value measurement to record certain assets and to determine fair value disclosures. In accordance with FASC ASC Topic 820, "Fair Value Measurement", fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

ASC 820 establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and maximize the use of unobservable inputs when measuring fair value as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Potsdam Humane Society, Inc. has the ability to access.
- Level 2 – Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following presents the Potsdam Humane Society, Inc. investment in fixed income securities, marketable equity securities, and mutual funds at December 31, 2011 and 2010 that are measured at fair value on a recurring basis. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Organization had no investments that were valued using Level 2 or 3 inputs for the years ended December 31, 2011 and 2010.

**POTSDAM HUMANE SOCIETY, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 (Continued):**

NOTE B -- FAIR VALUE MEASUREMENTS (Continued)

	Quoted Prices In Active Markets or Identical Assets Level 1	
	<u>12/31/2011</u>	<u>12/31/2010</u>
Investments	\$ <u>122,247</u>	\$ <u>148,861</u>

NOTE C -- MORTGAGE PAYABLE

The Organization had the following Notes Payable as of December 31, 2011:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
USDA Rural Development – Mortgage dated December 14, 2011 with monthly principal and interest payments of \$ 2,005.00 at a fixed interest rate of 3.75%, secured by the building located at 17 Madrid Avenue Potsdam, New York	\$ <u>7,917</u>	\$ <u>424,023</u>	\$ <u>431,940</u>

Principal payments on this long-term debt are as follows:

Year Ending December 31,	
2012,	\$ 7,917
2013,	8,220
2014,	8,536
2015,	8,863
2016,	9,203
Thereafter,	<u>389,201</u>
Total	\$ <u>431,940</u>

COMMUNICATION ON INTERNAL CONTROL

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To the Board of Directors of
Potsdam Humane Society, Inc.
Heuvelton, New York

In planning and performing my audit of the financial statements of Potsdam Humane Society, Inc. as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, I considered Potsdam Humane Society, Inc. internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Potsdam Humane Society, Inc. internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. I did not identify any deficiencies in internal control that I consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors of Potsdam Humane Society, Inc., and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

John C. Parcell IV, CPA, CFE

August 30, 2012