CAT CARE SOCIETY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

CAT CARE SOCIETY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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Taylor, Roth and Company, PLLC
Certified Public Accountants
working exclusively with nonprofit organizations

January 26, 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cat Care Society
Lakewood, Colorado

We have audited the accompanying statement of financial position of **Cat Care Society** (a Colorado nonprofit corporation) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Cat Care Society. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2010, is presented for comparative purposes only and was extracted from the financial statements, audited by other auditors, presented by net asset class for that year, on which an unqualified opinion dated February 17, 2011, was expressed.

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 Cat Care Society as of June 30, 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.

Taylor Roth & Company, PLLC

TAYLOR, ROTH AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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CAT CARE SOCIETY

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011	2010
Assets		
Cash and cash equivalents	$ 7,642	$ 15,221
Accounts receivable	6,088	20,139
Prepaid expenses	8,083	8,083
Inventory (Note 3)	14,881	33,332
Investments (Note 4)	76,416	83,027
Property and equipment (Note 5)	1,794,654	1,848,054
Total assets	$ 1,907,764	$ 2,007,856
Liabilities and net assets		
Liabilities		
Accounts payable	$ 98,056	$ 71,013
Accrued payroll costs	30,070	41,015
Lines of credit (Note 6)	159,855	145,071
Note payable (Note 7)	325,611	325,775
Loan payable (Note 8)	6,000	-
Total liabilities	619,592	582,874
Net assets		
Unrestricted		
Operating (Note 13)	(189,205)	(99,797)
Net investment in fixed assets	1,469,043	1,522,279
Temporarily restricted (Note 9)	8,334	2,500
Total net assets	1,288,172	1,424,982
Total liabilities and net assets	$ 1,907,764	$ 2,007,856

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

(WITH COMPARATIVE TOTALS FOR 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and other support				
Contributions	$ 293,234	20,000	$ 313,234	$ 329,248
Program service fees	237,416	-	237,416	285,017
Retail sales - thrift store	55,080	-	55,080	63,850
Bequests	41,704	-	41,704	135,202
Grants	22,611	-	22,611	13,300
Rental income	16,825	-	16,825	19,500
Membership	16,290	-	16,290	26,644
Special event income	39,376	-	39,376	46,238
Less: direct event expenses	(26,626)	-	(26,626)	(19,717)
Interest	1,704	-	1,704	4,680
Other	17,708	-	17,708	1,358
Net assets released from restrictions (Note 10)	14,166	(14,166)	-	-
Total revenue and other support	729,488	5,834	735,322	905,320
Expense				
Program services				
Shelter/Adoption Education	262,729	-	262,729	382,629
Veterinary/Clinic	239,658	-	239,658	221,554
Total program	502,387	-	502,387	604,183
Supporting services				
Management and general	187,989	-	187,989	171,099
Fundraising	181,756	-	181,756	176,296
Total expense	872,132	-	872,132	951,578
Change in net assets	(142,644)	5,834	(136,810)	(46,258)
Net assets, beginning of year	1,422,482	2,500	1,424,982	1,471,240
Net assets, end of year	$ 1,279,838	$ 8,334	$ 1,288,172	$ 1,424,982

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011						2010
	Program Services			Supporting Services			
	Shelter/ Adoption/ Education	Veterinary/ Clinic	Total Program	Management and General	Fund-raising	Total	Total
Salaries	$ 157,111	$ 119,552	$ 276,663	$ 72,029	$ 81,863	$ 430,555	$ 452,882
Payroll taxes & benefits	17,519	13,626	31,145	8,273	9,246	48,664	52,758
Supplies	14,322	69,050	83,372	2,654	5,636	91,662	18,766
Interest	-	-	-	39,196	-	39,196	26,522
Utilities	9,541	9,541	19,082	2,641	15,083	36,806	38,090
Veterinary services & medication	31,685	57	31,742	-	-	31,742	73,558
Contract & professional fees	63	1,633	1,696	1,809	17,382	20,887	57,098
Bank fees	-	-	-	14,566	-	14,566	16,207
Publications	-	-	-	-	13,078	13,078	9,131
Retail merchandise	2,187	3,019	5,206	-	5,078	10,284	14,091
Insurance	-	-	-	10,044	-	10,044	9,974
Telephone & internet	1,271	1,271	2,542	3,074	2,892	8,508	10,895
Accounting	-	-	-	8,380	-	8,380	9,900
Taxes, license & certification fees	523	425	948	5,670	-	6,618	1,324
Advertising	1,983	373	2,356	2,194	85	4,635	9,194
Postage	589	-	589	849	576	2,014	5,898
Equipment & software	-	-	-	1,921	-	1,921	3,771
Employee expenses	957	217	1,174	427	291	1,892	2,410
Repairs & maintenance	204	-	204	674	941	1,819	5,321
Dues & subscriptions	100	1,216	1,316	25	185	1,526	9,100
Meetings	-	-	-	574	-	574	426
Volunteer	-	-	-	568	-	568	2,185
Bad debts	-	236	236	-	-	236	3,156
All other	25	271	296	781	16,411	17,488	26,994
	238,080	220,487	458,567	176,349	168,747	803,663	859,651
Depreciation	24,649	19,171	43,820	11,640	13,009	68,469	91,927
Total	$ 262,729	$ 239,658	$ 502,387	$ 187,989	$ 181,756	$ 872,132	$ 951,578

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011	2010
Cash flows from operating activities		
Change in net assets	$ (136,810)	$ (46,258)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gains)losses on investments	(1,553)	(3,334)
Depreciation	68,469	91,927
Changes in operating assets and liabilities		
(Increase)decrease in accounts receivable	14,051	(13,776)
(Increase)decrease in prepaid expenses	-	(20,782)
(Increase)decrease in inventory	18,451	-
Increase(decrease) in accounts payable	27,043	1,153
Increase(decrease) in payroll accruals	(10,945)	8,405
Net cash provided(used) by operating activities	(21,294)	17,335
Cash flows from investing activities		
(Purchase) of fixed assets	(15,069)	(6,642)
(Purchase)proceeds of investments	8,164	7,225
Net cash provided(used) by investing activities	(6,905)	583
Cash flows from financing activities		
Borrowing (repayment) on line of credit	14,784	(15,000)
Borrowing (repayment) on notes and loans payable	5,836	(10,334)
Net cash provided(used) by financing activities	20,620	(25,334)
Net increase(decrease) in cash and cash equivalents	(7,579)	(7,416)
Cash and cash equivalents, beginning of year	15,221	22,637
Cash and cash equivalents, end of year	$ 7,642	$ 15,221
Supplemental disclosure of information:		
Cash paid during the period for interest	$ 39,196	$ 26,522

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - NATURE OF ACTIVITIES

Cat Care Society (the Organization) is located in Lakewood, Colorado, and was incorporated in 1981 as a nonprofit corporation under the laws of the State of Colorado. The Organization is dedicated to the improvement of the quality of life for abandoned, injured, and abused cats in the metropolitan Denver area. The Organization operates a cage-free shelter, sponsors educational programs to promote public awareness, and actively seeks qualified homes for the cats it receives. In August 2006, the Organization opened its on-site Cat Clinic, which provides veterinary services to all cats entering the shelter. Since February 2007, the Clinic also provides low-cost spays, neuters, and veterinary care to qualifying low-income families on a sliding fee scale. The Organization is funded primarily by contributions and program service fees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

1. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. Basis of Presentation

The Organization 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.

3. Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

4. Donations

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities, as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless the explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (Continued)

5. Capitalization and Depreciation

The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of $500. The fair value of donated assets is similarly capitalized. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

6. 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.

7. Income Taxes

The Organization has received an Internal Revenue Service exemption from federal income taxes under Section 501(c)(3). Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements.

8. Functional Reporting of Expenses

For the year ended June 30, 2011, the costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

9. Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total 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 Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

10. Subsequent Events

Management has evaluated subsequent events through January 26, 2012, the date the financial statements were available to be issued.

11. Reclassifications

Certain material reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

NOTE 3 - INVENTORY

At year-end, inventory items held for sale to the public are valued at cost and consisted of:

Description	Amount
Meow Mart merchandise	$ 11,250
Clinic medication	2,473
Clinic food	1,158
Total	$ 14,881

NOTE 4 - INVESTMENTS

Investments are carried at fair value (level 1) and consist of the following:

Description	Amount
Certificate of deposit	$ 75,290
Mutual funds	1,126
Total	$ 76,416

Investment income is summarized as follows:

Description	Amount
Realized and unrealized gains(losses)	$ 1,553
Interest and dividend income	178
Account fees	(27)
Net investment return	$ 1,704

The Organization adopted the *Fair Value Measurements and Disclosures* Topic of FASB ASC 820 which requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. The standard establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

NOTE 4 - INVESTMENTS – (Continued)

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include mutual funds, listed equities, listed derivatives, cash, and cash equivalents. The Organization's investments in cash equivalents, mutual funds, and equities are considered level one inputs.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. The Organization does not have any investments in this category.

Level 3 – Pricing inputs are unobservable for the investment and include 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. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt. The Organization does not have any investments in this category.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Description	Amount
Land	$ 195,000
Buildings and improvements	1,985,923
Furniture and equipment	158,893
Clinic equipment	81,240
Total	2,421,056
Less: accumulated depreciation	(626,402)
Net property and equipment	$ 1,794,654

Depreciation expense for the year was $68,469.

NOTE 6 - LINES OF CREDIT

The Organization has two lines of credit established with Bank of the West. The first is a $150,000 revolving line of credit with an interest rate of prime + 3.25%. At June 30, 2011, the interest rate was 3.25% and outstanding drawings on this line of credit were $150,000. The Organization is required to hold a certificate of deposit as collateral for this line of credit. At June 30, 2011, this certificate of deposit has a balance of $75,290 and is classified in unrestricted net assets under investments.

The second line of credit has a limit of $10,000 and an annual percentage rate of 9.25%. At June 30, 2011, outstanding drawings on this line of credit were $9,855.

Interest expense related to both lines of credit for the year ended June 30, 2011 was $5,437.

NOTE 7 - NOTE PAYABLE – SUBSEQUENT EVENTS

In April 2005, the Organization purchased a building located at 5707 West Sixth Avenue to house its Cajun Closet Thrift Shop. In connection with this purchase, the Organization has a $380,000 five-year mortgage payable to a bank. The note bears interest at 6.51% per annum, is secured by a deed of trust on the property, and requires monthly payments of $2,857. The mortgage contains a balloon payment, originally estimated at $328,621, and was due on April 13, 2010.

This original note was not paid off on April 13, 2010, and the Organization negotiated a renewal of this loan starting July 13, 2010. The principal amount of the loan was established at $325,775. Eleven payments of $3,147 were to be paid against principal and interest, with the first payment beginning August 13, 2010. A balloon payment of approximately $325,611 and all unpaid accrued interest was due on July 13, 2011.

Subsequent to year end, on December 20, 2011, the Cat Care Society closed a short sale of the building at 5707 West Sixth Avenue for $250,000. The mortgage holder, JPMorgan Chase Bank, accepted the short sale and agreed to forgive the resulting deficiency.

NOTE 8 - LOAN PAYABLE – RELATED PARTY

On April 28, 2011, the Organization engaged the Executive Director's husband for a short-term loan to cover payroll expenses. The loan amount was $15,000, due June 1, 2011 at the rate of 10% per annum.

The original note was not completely paid off on June 1, 2011. At June 30, 2011, the Organization has paid $9,000 in principal only.

Principal payments are required as follows:

Year	Amount
2012	$ 6,000

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

At year-end, temporarily restricted net assets were available for the following program purposes:

Description	Amount
Clinic medication	$ 6,667
Shelter food	1,667
Total	$ 8,334

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year, net assets were released from donor restrictions by incurring expenses, satisfying the restricted program purposes:

Description	Amount
Clinic medication	$ 9,333
Shelter food	2,333
Veterinary services	2,500
Total	$ 14,166

NOTE 11 - CONCENTRATION OF LENDER RISK

Significant concentrations of lender risk exist with the mortgage payable and the line of credit, as approximately 25% of the assets are being financed by debt. Additionally, 53% of total debt is financed by one mortgage lender, and 24% of total debt is financed by one line of credit lender.

NOTE 12 - LESSOR AGREEMENT

The Organization has a leasing agreement with a private company that is renting office space in the Organization's building. Monthly rental income was $1,400 in 2011, and is projected to be $1,500 in fiscal year 2012, up to the date of the property sale in December 2011.

NOTE 13 - NEGATIVE OPERATING NET ASSETS -MANAGEMENT'S PLANS

The profit & loss and cash flow results for our fiscal year ending June 30, 2011 reflect challenges we have faced for the past several years in attempting to stabilize the organization's finances and increase revenues. The most significant of these have been:

- The burden of a large mortgage on the property that housed our Cajun's Closet thrift store, with an impending balloon payment due of more than $300,000, which we were finally unable to refinance or reschedule;

- The unprofitability of the thrift store, even excluding financing costs;

- A mix of fundraising activities that has proved to be neither cost-effective nor adequate to meet our revenue needs in a difficult economic climate.

However, since the end of the 2011 fiscal year the board has been able to meet these challenges and achieve some major changes in our financial condition.

On December 20, 2011, the Cat Care Society closed a short sale of the building at 5707 West Sixth Avenue (housing the above thrift store) for $250,000. The mortgage holder, JPMorgan Chase Bank, accepted this short sale and agreed to forgive the resulting deficiency – allowing us to avert foreclosure or other costs associated with a continued heavy mortgage burden. This sale not only removed a substantial liability from the Cat Care Society balance sheet, but also allows the Society to refocus on its core mission of caring for cats. We now have an opportunity to strengthen our main revenue-producing operating units, the shelter and clinic, and also to develop the revenue potential of the Meow Mart gift store located in the shelter.

During this same period, the board has been working to develop a more aggressive and cost-efficient fundraising plan – weeding out some marginal fundraising events, improving the efficiency of remaining events – including our signature Tails of the Painted Cats annual fundraiser – and putting increased emphasis on direct-mail marketing, with its long-established record of superior return on investment compared to most other modes of fundraising. At the board's direction, Cat Care Society is also augmenting this direct-mail activity with an aggressive schedule of e-mail and social-media marketing.

The board feels that its hands-on involvement in the management of Cat Care Society is already resulting in greater efficiency in virtually all areas of operation, increased public awareness of the organization and its positive impacts on animal welfare, and a more stable financial outlook for 2012 and the future.