CAT CARE SOCIETY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

CAT CARE SOCIETY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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

January 9, 2013

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, 2012, 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, 2011, is presented for comparative purposes only and was extracted from the financial statements presented by net asset class for that year, on which an unqualified opinion dated January 26, 2012, 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, 2012, 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, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Assets		
Cash and cash equivalents	$ 24,788	$ 7,642
Accounts receivable	4,858	6,088
Prepaid expenses	4,735	8,083
Inventory (Note 3)	7,144	14,881
Investments (Note 4)	76,526	76,416
Property and equipment (Note 5)	1,315,652	1,794,654
Total assets	$ 1,433,703	$ 1,907,764
Liabilities and net assets		
Liabilities		
Accounts payable	$ 66,185	$ 98,056
Accrued payroll costs	25,974	30,070
Lines of credit (Note 6)	109,547	159,855
Note payable (Note 7)	-	325,611
Loans payable (Note 8)	50,000	6,000
Total liabilities	251,706	619,592
Net assets		
Unrestricted		
Operating (Note 10)	(133,655)	(189,205)
Net investment in fixed assets	1,315,652	1,469,043
Temporarily restricted	-	8,334
Total net assets	1,181,997	1,288,172
Total liabilities and net assets	$ 1,433,703	$ 1,907,764

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and other support				
Contributions	$ 300,816	-	$ 300,816	$ 313,234
Program service fees	220,074	-	220,074	237,416
Bequests	139,451	-	139,451	41,704
Retail sales - thrift store	41,438	-	41,438	55,080
Membership	22,450	-	22,450	16,290
Special event income	13,264	-	13,264	39,376
Less: direct event expenses	(10,568)	-	(10,568)	(26,626)
Grants	9,125	-	9,125	22,611
Rental income	1,400	-	1,400	16,825
Loss on building sale (Note 7)	(86,161)	-	(86,161)	-
Other	7,832	-	7,832	19,412
Net assets released from restrictions (Note 9)	8,334	(8,334)	-	-
Total revenue and other support	667,455	(8,334)	659,121	735,322
Expense				
Program services				
Shelter/Adoption Education	305,761	-	305,761	262,729
Veterinary/Clinic	192,333	-	192,333	239,658
Total program	498,094	-	498,094	502,387
Supporting services				
Management and general	118,947	-	118,947	187,989
Fundraising	148,255	-	148,255	181,756
Total expense	765,296	-	765,296	872,132
Change in net assets	(97,841)	(8,334)	(106,175)	(136,810)
Net assets, beginning of year	1,279,838	8,334	1,288,172	1,424,982
Net assets, end of year	$ 1,181,997	$ -	$ 1,181,997	$ 1,288,172

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012						2011
	Program Services			Supporting Services			
	Shelter/ Adoption/ Education	Veterinary/ Clinic	Total Program	Management and General	Fund- raising	Total	Total
Salaries	$ 161,603	$ 106,989	$ 268,592	$ 75,679	$ 34,641	$ 378,912	$ 430,555
Payroll taxes & benefits	24,599	16,286	40,885	11,520	5,273	57,678	48,664
Veterinary services & medication	33,974	39,995	73,969	-	-	73,969	94,974
Taxes & license fees (Note 7)	350	-	350	75	34,817	35,242	6,618
Utilities	8,867	8,867	17,734	384	8,839	26,957	36,806
Retail merchandise	4,530	5,527	10,057	-	9,118	19,175	10,284
Publications	-	-	-	-	13,895	13,895	13,078
Dues & subscriptions	-	2,498	2,498	-	11,306	13,804	1,526
Contract & professional fees	-	2,527	2,527	2,046	6,168	10,741	20,887
Bank fees	-	-	-	10,589	-	10,589	14,566
Insurance	4,309	2,853	7,162	2,017	924	10,103	10,044
Supplies	6,607	1,744	8,351	779	173	9,303	28,373
Telephone & internet	1,586	1,586	3,172	1,586	2,393	7,151	8,508
Accounting	-	-	-	7,125	-	7,125	8,380
Interest	-	-	-	5,331	-	5,331	39,196
Bad debts	-	3,355	3,355	-	-	3,355	236
Repairs & maintenance	-	-	-	1,006	1,602	2,608	1,819
Employee expenses	450	106	556	229	106	891	1,892
Volunteer	-	-	-	325	-	325	568
Postage	103	-	103	152	64	319	2,071
Advertising	-	-	-	-	-	-	4,635
All other	74	-	74	104	18,936	19,114	19,983
	247,052	192,333	439,385	118,947	148,255	706,587	803,663
Depreciation	58,709	-	58,709	-	-	58,709	68,469
Total	$ 305,761	$ 192,333	$ 498,094	$ 118,947	$ 148,255	$ 765,296	$ 872,132

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (106,175)	$ (136,810)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Debt forgiveness (Note 7)	(89,483)	-
(Gains)losses on investments	(16)	(1,553)
Loss on disposed property (Note 7)	425,644	-
Depreciation	58,709	68,469
Changes in operating assets and liabilities		
(Increase)decrease in accounts receivable	1,230	14,051
(Increase)decrease in prepaid expenses	3,348	-
(Increase)decrease in inventory	7,737	18,451
Increase(decrease) in accounts payable	(31,871)	27,043
Increase(decrease) in payroll accruals	(4,096)	(10,945)
Net cash provided(used) by operating activities	265,027	(21,294)
Cash flows from investing activities		
(Purchase) of fixed assets	(5,351)	(15,069)
(Reinvestment) of earnings	(94)	8,164
Net cash provided(used) by investing activities	(5,445)	(6,905)
Cash flows from financing activities		
Borrowing (repayment) on line of credit	(50,308)	14,784
Borrowing on notes and loans payable	55,000	-
(Repayment) on notes and loans payable	(247,128)	5,836
Net cash provided(used) by financing activities	(242,436)	20,620
Net increase(decrease) in cash and cash equivalents	17,146	(7,579)
Cash and cash equivalents, beginning of year	7,642	15,221
Cash and cash equivalents, end of year	$ 24,788	$ 7,642
Supplemental disclosure of information:		
Cash paid during the period for interest	$ 5,331	$ 39,196

The accompanying notes are an integral part of these financial statements

CAT CARE SOCIETY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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, 2012, 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, 2011, from which the summarized information was derived.

10. Fair Value Measurements

The Organization is subject to the provisions of the *Fair Value Measurements and Disclosures* accounting standard. This standard requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3).

11. Subsequent Events

Management has evaluated subsequent events through January 9, 2013, the date the financial statements were available to be issued.

12. Reclassifications

Certain material reclassifications have been made to the 2011 financial statements to conform to the 2012 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	$ 3,513
Clinic medication	2,473
Clinic food	1,158
Total	$ 7,144

NOTE 4 - INVESTMENTS

The carrying value of investments is based on quoted market prices (Level 1 inputs):

Description	Amount
Certificate of deposit	$ 75,384
Mutual funds	1,142
Total	$ 76,526

Investment income is summarized as follows:

Description	Amount
Realized and unrealized gains(losses)	$ 16
Interest and dividend income	94
Net investment return	$ 110

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Description	Amount
Land	$ 100,000
Buildings and improvements	1,589,312
Furniture and equipment	164,243
Clinic equipment	81,240
Total	1,934,795
Less: accumulated depreciation	(619,143)
Net property and equipment	$ 1,315,652

Depreciation expense for the year was $58,709.

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, 2012, the interest rate was 3.25% and outstanding drawings on this line of credit were $100,000. The Organization is required to hold a certificate of deposit as collateral for this line of credit. At June 30, 2012, this certificate of deposit has a balance of $75,384 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, 2012, outstanding drawings on this line of credit were $9,547.

Interest expense related to both lines of credit for the year ended June 30, 2012 was $5,331.

NOTE 7 - NOTE PAYABLE – LOSS OF SALE OF PROPERTY

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 had a $380,000 five-year mortgage. 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. The Organization paid $34,817 in property taxes during the fiscal year. Information regarding the sale of the building is as follows:

Description	Amount
Sales price	$ 250,000
Less net book value of property	(425,644)
Plus forgiveness of note	89,483
Loss of sale of property	$ (86,161)

NOTE 8 - LOAN PAYABLES

On December 9, 2011, an individual loaned the Organization funds totaling $50,000 to be repaid within five years and accruing interest at 2% per year. At year end, the organization owed the individual $45,000.

RELATED PARTIES

On April 28, 2011, the Organization engaged the former Executive Director's husband for a short-term loan to cover payroll expenses. The loan amount was $15,000, At June 30, 2012, that note was paid in full.

On September 16, 2011, the treasurer loaned the Organization funds totaling $5,000 to be repaid within one year accruing no interest.

Principal payments for both notes are required as follows:

Year	Amount
2013	$ 15,000
2014	10,000
2015	10,000
2016	10,000
2017	5,000
Total	$ 50,000

NOTE 9 - 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	$ 6,667
Shelter food	1,667
Total	$ 8,334

NOTE 10 - NEGATIVE OPERATING NET ASSETS – MANAGEMENT'S PLANS

During the fiscal year ended June 30, 2012, the Cat Care Society accomplished a significant task toward improving its financial condition: completing a short sale of the adjoining property at 5707 West Sixth Avenue which had housed its Cajun's Closet thrift store. Not only did this remove the burden of a large balloon mortgage and remove a nonperforming asset from our balance sheet, but it also enabled CCS to refocus on its core mission of caring for cats and finding permanent homes for as many of them as possible. Although the financial results for FY 2012 reflect substantial charges against net revenues associated with the transfer of this property and related assets, during the year CCS management began some additional actions to reduce our debt burden further, improve the ratio debt to owners' equity and strengthen annual operating revenues.

The first of these actions involves taking advantage of a substantial bequest from the Helen Erickson Carrasco estate, received in two parts ($90,000 in FY 2102 and $100,000 in FY 2013). Under previous managers, windfalls of this type had been used interchangeably with annual operating income and had gone toward short-term expenditures, without any strategic focus. As a result the organization became dangerously dependent on one-time income from bequests and grants. Starting with the Carrasco bequest, we are designating these funds as reserves to meet contingencies and reduce debt.

As a result, we have reduced accounts payable from over $90,000 at the end of 2011 to less than $5,000 at the end of 2012, with no past-due balances. We have also begun to address our Line of Credit balance at Bank of the West, with the goal of bringing this balance down to no more than $50,000 by June 30, 2013. (This balance currently stands at $100,000, against a $150,000 line of credit. We have also reduced our Overdraft Protection balance from $10,000 to zero.)

The second action taken to improve revenue is a more aggressive approach to direct mail fundraising, which we began in the middle of FY 2012 and have stepped up since. In October 2012 we made an investment in a large acquisition or new-member mail appeal, using the services of a professional "letter shop" and list broker and mailing to almost 15,000 names on mailing lists of people who have contributed to similar animal-welfare causes. The objective is to add new names to our house file of active members and supporters, with a high probability of future income streams from this enhanced membership base. Using the same printing and direct mail company, we have also begun mailing more frequent appeals to current and past supporters, telling the success stories of our shelter and clinic and soliciting further support. All of these mailings thus far have achieved their intended purpose and we are already experiencing the revenue growth we seek.

Additional strategies we are pursuing in FY 2013 and beyond are related to CCS fundraising events. We are fine-tuning what has become our signature event, the Tales of the Painted Cats gala dinner and auction, to improve both revenues and margins; and we are working on developing an additional mix of events designed to bring more people to the CCS premises, shelter and clinic, and to continue attracting a broader base of support in a more cost-effective manner than we have done in previous years. To that end, we have developed a methodology by which we scrutinize all activities in which we are asked to take part, weighing the PR value and potential new revenue against hard dollar costs, the drain on staff, volunteers and resources, and opportunity cost of each event. At the same time we are augmenting all events and outreach activity with frequent and professionally managed social-media campaigns, including e-mail blasts, website enhancements, Facebook and other socializing tactics. We have been able to engage the marketing and public-relations expertise of two of our Board members to guide these efforts.

When the Board of Directors is certain that our annual revenues can support the strengthening of our management team, we plan to recruit a full- or part-time Executive Director or Business/Operations Manager to implement the strategic thinking reflected in the above plan of attack. Meanwhile, the CCS Board continues to serve as the overall management committee overseeing the activities of the organization.