

**MICHIGAN ANTI-CRUELTY SOCIETY**

**FINANCIAL STATEMENTS**

**May 31, 2011**

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Michigan Anti-Cruelty Society  
Detroit, Michigan

We have audited the accompanying balance sheets of the Michigan Anti-Cruelty Society as of May 31, 2011 and 2010, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Michigan Anti-Cruelty Society as of May 31, 2011 and 2010 and the changes in its net assets, and its cash flows for the years then ended, in conformity with accounting-principles generally accepted in the United States of America.

*Frohm Kelley Butler & Ryan*

Certified Public Accountants

September 21, 2011

BALANCE SHEETS

May 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 118,484	\$ 140,623
Accounts receivable	5,379	3,539
TOTAL CURRENT ASSETS	<u>123,863</u>	<u>144,162</u>
LAND, BUILDING AND EQUIPMENT		
Land	63,452	63,452
Building and improvements	398,624	394,034
Vehicles	108,008	106,033
Equipment	92,158	99,388
Furniture and fixtures	4,818	4,818
	<u>667,060</u>	<u>667,725</u>
Less allowance for depreciation	369,452	365,382
	<u>297,608</u>	<u>302,343</u>
LONG-TERM INVESTMENTS	<u>4,997,792</u>	<u>4,658,310</u>
	<u>\$ 5,419,263</u>	<u>\$ 5,104,815</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 46,881	\$ 39,712
Accrued payroll and withholdings	20,231	16,893
TOTAL CURRENT LIABILITIES	<u>67,112</u>	<u>56,605</u>
NET ASSETS		
Unrestricted	5,293,151	4,989,210
Permanently restricted	59,000	59,000
	<u>5,352,151</u>	<u>5,048,210</u>
	<u>\$ 5,419,263</u>	<u>\$ 5,104,815</u>

See Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

Years ended May 31, 2011 and 2010

	2011		2010	
	Unrestricted	Permanently Restricted	Total	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Donations	\$ 194,849	\$	\$ 194,849	\$ 169,778
Memberships	7,380		7,380	5,910
Fund raising events	41,063		41,063	35,993
Less direct expenses	15,008		15,008	13,141
	26,055		26,055	22,852
Bequests	533,063		533,063	233,926
Veterinary clinic	229,746		229,746	245,610
Animal adoption	25,420		25,420	26,426
Interest and dividends	158,397	97	158,494	153,554
Miscellaneous	7,135		7,135	5,800
Gain on sale of assets	5,500		5,500	6,500
Gain on sale of investments	53,770		53,770	41,502
Unrealized gain on investments	467,737		467,737	675,543
Net assets released from restrictions				
Satisfaction of program restriction	97	(97)		
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,709,149		1,709,149	1,587,401
<b>EXPENSES</b>				
Program services	1,284,468		1,284,468	1,215,669
Management and general	75,470		75,470	72,393
Fund raising	45,270		45,270	39,836
TOTAL EXPENSES	1,405,208		1,405,208	1,327,898
CHANGE IN NET ASSETS	303,941		303,941	259,503
NET ASSETS AT BEGINNING OF YEAR	4,989,210	59,000	5,048,210	4,788,707
NET ASSETS AT END OF YEAR	\$ 5,293,151	\$ 59,000	\$ 5,352,151	\$ 5,048,210

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Years ended May 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS - OPERATIONS</b>		
Cash received from contributors	\$ 776,355	\$ 445,607
Cash received from service recipients	260,461	282,665
Cash paid to suppliers and employees	(1,353,486)	(1,266,237)
Interest and dividends received	158,494	153,554
NET CASH USED FOR OPERATIONS	<u>(158,176)</u>	<u>(384,411)</u>
<b>CASH FLOWS - INVESTING</b>		
Purchase of equipment	(51,489)	(48,962)
Proceeds from sale of equipment	5,500	6,500
Purchase of long-term investments	(2,293,428)	(2,407,828)
Sale of long-term investments	2,475,454	2,799,295
	<u>136,037</u>	<u>349,005</u>
NET DECREASE IN CASH	(22,139)	(35,406)
CASH AT BEGINNING OF YEAR	<u>140,623</u>	<u>176,029</u>
CASH AT END OF YEAR	<u>\$ 118,484</u>	<u>\$ 140,623</u>

See Notes to Financial Statements.

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF INCREASE IN NET ASSETS		
TO NET CASH USED FOR OPERATIONS		
Increase in net assets	\$ 303,941	\$ 259,503
Adjustments to reconcile increase in net assets		
to net cash used for operations:		
Depreciation	56,223	54,927
Gain on sale of assets	(5,500)	(6,500)
Gain on sale of investments	(53,770)	(41,502)
Unrealized gain on investments	(467,737)	(675,543)
(Increase) decrease in assets		
Accounts receivable	(1,840)	4,829
Increase (decrease) in liabilities		
Accounts payable	7,169	17,088
Accrued payroll and withholdings	<u>3,338</u>	<u>2,787</u>
NET CASH USED FOR OPERATIONS	\$ <u>(158,176)</u>	\$ <u>(384,411)</u>

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended May 31, 2011 and 2010

	2011			2010	
	Program Services	Management & General	Fund Raising	Total	Total
Salaries	\$ 623,807	\$	\$	\$ 623,807	\$ 604,506
Payroll taxes	54,626			54,626	50,699
Hospital insurance	98,574			98,574	79,123
Workers' compensation insurance	19,993			19,993	10,038
Payroll service fee	6,569			6,569	6,248
	<u>803,569</u>			<u>803,569</u>	<u>750,614</u>
Pet food	32,985			32,985	32,716
Kennel supplies	66,855			66,855	69,843
Medical and veterinary	41,209			41,209	46,971
Veterinary clinic expenses	128,189			128,189	118,865
Repairs and maintenance	66,817			66,817	51,571
Permits, licenses and fees	1,201			1,201	809
Printing	2,697		24,274	26,971	20,794
Advertising	695		6,258	6,953	8,804
Utilities	40,925			40,925	47,122
Telephone	5,997			5,997	4,912
Insurance	10,408			10,408	12,266
Gas, oil and maintenance	16,318			16,318	13,002
Legal and professional		14,718		14,718	11,735
Postage			14,738	14,738	13,197
Office supplies		17,300		17,300	11,506
Education and subscriptions		413		413	4,424
Miscellaneous	10,380			10,380	9,092
Investment fees		40,597		40,597	43,694
Taxes		2,442		2,442	1,034
	<u>1,228,245</u>	<u>75,470</u>	<u>45,270</u>	<u>1,348,985</u>	<u>1,272,971</u>
Depreciation	56,223			56,223	54,927
	<u>\$ 1,284,468</u>	<u>\$ 75,470</u>	<u>\$ 45,270</u>	<u>\$ 1,405,208</u>	<u>\$ 1,327,898</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Years ended May 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Society was formed to maintain and operate a hospital, ambulance and veterinary service for the care of animals. The Society also provides kennels and suitable chambers for the humane destruction of wounded animals. The Society promotes the prevention of animal cruelty.

Basis of Accounting

The financial statements of the Society are reported on the accrual basis of accounting.

Use of Estimates

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

Contributions

The Society reports gifts of land, building, and equipment as unrestricted support unless 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 explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when donated or acquired long-lived assets are placed in service.

Property and Equipment

Land, building and equipment have been recorded at cost for purchased items. Donated assets have been recorded at fair market value. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

Investments

Purchased investments are recorded at cost. Donated securities are recorded at their fair market value at date of donation.

Cash and Cash Equivalents

The Society considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Advertising

Advertising costs are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended May 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Volunteers

No amounts have been reflected in the statements for donated services since no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time in the Society's fund-raising activities and administrative functions.

Income Taxes

The Society is a non-profit organization under Internal Revenue Code 501(c)(3) and, therefore, is exempt from income tax.

NOTE B - INVESTMENTS

Investments are carried at fair market value. The Society invests cash in excess of daily requirements in short-term and long-term investments. Investments consisted of the following at May 31, 2011:

	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
U.S. Treasury Bills	\$ 234,226	\$ 70	\$ 234,296
Money Market Funds	95,074		95,074
Mutual Funds	2,672,693	496,320	3,169,013
Corporate Bonds	556,577	55,057	611,634
Stocks	<u>774,856</u>	<u>112,919</u>	<u>887,775</u>
TOTAL LONG-TERM INVESTMENTS	<u>\$ 4,333,426</u>	<u>\$ 664,366</u>	<u>\$ 4,997,792</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended May 31, 2011 and 2010

NOTE B - INVESTMENTS (CONTINUED)

Realized gain (loss) on sale of investments were as follows at May 31, 2011:

	<u>Proceeds</u>	<u>Cost</u>	<u>Gain (Loss)</u>
Stocks	\$ 564,656	\$ 599,765	\$ (35,109)
Mutual Funds	1,514,716	1,426,596	88,120
Corporate Bonds	28,257	25,866	2,391
U.S. Treasury Bills	<u>367,825</u>	<u>369,457</u>	<u>(1,632)</u>
	<u>\$ 2,475,454</u>	<u>\$ 2,421,684</u>	<u>\$ 53,770</u>

Cost is determined based on the specific identification method.

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at May 31:

	<u>2011</u>	<u>2010</u>
Enid K. Blakeman Trust	<u>\$ 5,379</u>	<u>3,539</u>

NOTE D – PERMANENTLY RESTRICTED NET ASSETS

The Society is the beneficiary of a trust under the will of Elizabeth S. Lounsbury. In accordance with the terms of the trust, the income from the trust assets can be used for the Society's unrestricted operations. The principal of the trust is permanently restricted.

Permanently restricted net assets consisted of the following at May 31:

	<u>2011</u>	<u>2010</u>
U.S. Treasury Bill due 9/15/11	<u>\$ 59,000</u>	<u>\$ 59,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended May 31, 2011 and 2010

NOTE E – CONCENTRATIONS OF CREDIT AND MARKET RISK

Financial instruments that potentially expose the Society to concentrations of credit and market risk consist primarily of cash held in checking and money market accounts and investments at brokerage firms. These cash and investment accounts are maintained at high quality financial institutions and credit exposure is limited at any one institution. The Society has not experienced any losses on these accounts.

NOTE F - MANAGEMENT EVALUATION

Management has evaluated subsequent events through September 21, 2011, the date on which the financial statements were available to be issued.