

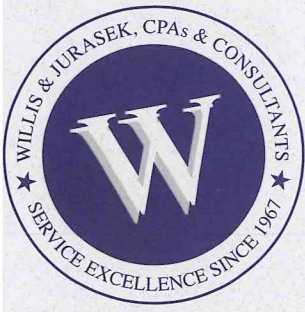
**Cascades Humane Society, Inc.**

Financial Statements  
And Independent Auditors' Report

Years Ended December 31, 2010 and 2009

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## Independent Auditors' Report

To the Board of Directors  
Cascades Humane Society, Inc.  
Jackson, Michigan

We have audited the accompanying statements of financial position of Cascades Humane Society, Inc. (a non-profit organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows 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 audits 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 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 Cascades Humane Society, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

April 20, 2011

**Cascades Humane Society, Inc.**  
 Statements of Financial Position  
 December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b><u>Assets</u></b>		
<b>Current Assets:</b>		
Cash	\$ 147,797	\$ 296,594
Investments	202,876	131,646
Prepaid expenses	254	1,679
	<hr/>	<hr/>
Total current assets	350,927	429,919
	<hr/>	<hr/>
<b>Property and Equipment, net</b>	<b>1,631,161</b>	<b>1,613,882</b>
	<hr/>	<hr/>
<b>Other Assets:</b>		
Restricted cash	105,109	25,000
Restricted investments	52,867	49,502
	<hr/>	<hr/>
Total other assets	157,976	74,502
	<hr/>	<hr/>
	<b>\$ 2,140,064</b>	<b>\$ 2,118,303</b>
	<hr/>	<hr/>
<b><u>Liabilities and Net Assets</u></b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 13,526	\$ 9,704
Accrued liabilities	6,323	5,478
Deferred revenue	1,719	8,025
	<hr/>	<hr/>
Total current liabilities	21,568	23,207
	<hr/>	<hr/>
<b>Net Assets:</b>		
Unrestricted:		
Designated	75,000	-
Undesignated	1,954,076	2,010,676
Temporarily restricted	5,000	5,000
Permanently restricted	84,420	79,420
	<hr/>	<hr/>
Total net assets	2,118,496	2,095,096
	<hr/>	<hr/>
	<b>\$ 2,140,064</b>	<b>\$ 2,118,303</b>
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See Notes to Financial Statements.

**Cascades Humane Society, Inc.**  
 Statements of Activities  
 Years Ended December 31, 2010 and 2009

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Public Support and Revenues:</b>				
Membership dues	\$ 4,235	\$ -	\$ -	\$ 4,235
Program service fees	136,675	-	-	136,675
Grants	115,320	-	-	115,320
Contributions	313,228	5,000	5,000	323,228
Bequests	23,006	-	-	23,006
In-kind contributions	38,767	-	-	38,767
Special events	66,262	-	-	66,262
Merchandise	4,326	-	-	4,326
Miscellaneous	2,425	-	-	2,425
Net assets released from restrictions	5,000	(5,000)	-	-
<b>Total public support and revenues</b>	<b>709,244</b>	<b>-</b>	<b>5,000</b>	<b>714,244</b>
<b>Expenses:</b>				
Program services	566,145	-	-	566,145
Supporting services:				
General and administrative	50,543	-	-	50,543
Fundraising	90,478	-	-	90,478
<b>Total supporting services</b>	<b>141,021</b>	<b>-</b>	<b>-</b>	<b>141,021</b>
<b>Total expenses</b>	<b>707,166</b>	<b>-</b>	<b>-</b>	<b>707,166</b>
<b>Changes in Net Assets from Operations</b>	<b>2,078</b>	<b>-</b>	<b>5,000</b>	<b>7,078</b>
<b>Non-Operating Income (Expense):</b>				
Interest and dividend income	14,993	-	-	14,993
Gain (loss) on sale of investments	-	-	-	-
Gain (loss) on sale of property and equipment	(2,001)	-	-	(2,001)
Gain (loss) on investments - unrealized	4,075	-	-	4,075
Investment fees	(745)	-	-	(745)
<b>Total non-operating income (expense)</b>	<b>16,322</b>	<b>-</b>	<b>-</b>	<b>16,322</b>
<b>Changes in Net Assets</b>	<b>18,400</b>	<b>-</b>	<b>5,000</b>	<b>23,400</b>
<b>Net Assets - Beginning of Year</b>	<b>2,010,676</b>	<b>5,000</b>	<b>79,420</b>	<b>2,095,096</b>
<b>Net Assets - End of Year</b>	<b>\$ 2,029,076</b>	<b>\$ 5,000</b>	<b>\$ 84,420</b>	<b>\$ 2,118,496</b>

See Notes to Financial Statements.

**Cascades Humane Society, Inc.**  
 Statements of Cash Flows  
 Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 23,400	\$ 181,036
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	46,581	46,750
Deferred revenue	(6,306)	(6,975)
In-kind contributions	(38,767)	(23,980)
In-kind expenses	38,767	21,480
(Gain) loss on investments - unrealized	(4,075)	(9,292)
(Gain) loss on sale of property and equipment	2,001	-
(Gain) loss on sale of investments	-	3,319
Changes in operating assets and liabilities:		
Prepaid expenses	1,425	(102)
Accounts payable	3,822	4,460
Accrued liabilities	846	1,713
Net cash provided (used) by operating activities	<u>67,694</u>	<u>218,409</u>
<b>Cash Flows Used in Investing Activities:</b>		
Purchase of property and equipment	(65,862)	-
Proceeds from sale of investments	6,012	14,712
Purchase of investments	<u>(76,532)</u>	<u>(141,261)</u>
Net cash provided (used) by investing activities	<u>(136,382)</u>	<u>(126,549)</u>
 <b>Net Increase (Decrease) in Cash</b>	 (68,688)	 91,860
<b>Cash - Beginning of Year</b>	<u>321,594</u>	<u>229,734</u>
<b>Cash - End of Year</b>	<u>\$ 252,906</u>	<u>\$ 321,594</u>

See Notes to Financial Statements.

**Cascades Humane Society, Inc.**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies**

**Organization and Nature of Activities**

Cascades Humane Society, Inc. (the "Society") provides education to the general public regarding care of pets and adoption services to place homeless animals in the Jackson, Michigan area. The Society's support comes primarily from individual donor contributions and program fees (animal adoption fees and spay/neuter program fees).

**Basis of Presentation**

Financial statement presentation follows the standards set by the Financial Accounting Standards Board (FASB). According to these professional standards, Cascades Humane Society, Inc. 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.

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and the Schedules of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Tax-Exempt Status**

Cascades Humane Society, Inc. is an organization recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

**Cash**

Cash include all highly liquid investments purchased with an initial maturity of three months or less. There were no deposits in excess of federally insured limits (FDIC) at year-end.

**Investments and Fair Value Measurements**

Cascades Humane Society, Inc. carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statements of Financial Position. Investment income and gains and losses, including unrealized, are included in the change in net assets in the accompanying Statements of Activities as unrestricted unless temporarily restricted by donor stipulation. Donated investments are recorded at fair market value at the date of gift. The Society holds investments which are classified as available for sale and are recorded at fair value. Unrealized gains of \$4,075 and \$9,292 are included in non-operating income (expense) for the years ended December 31, 2010 and 2009, respectively.

The Society applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as 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. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements (Note 2).

**Cascades Humane Society, Inc.**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Endowment Funds**

The Society treats monies received as endowments as permanently restricted net assets at the fair market value of the initial contribution. Net income from these endowments may be spent as the Society sees fit with the current policy that the distributions are limited to 5% of the average value of the previous eight quarters. Endowments are invested with the objective of achieving a long-term growth of principal and income using the following investment vehicles – equity investments, fixed income securities (maturities longer than one year) and cash equivalents (maturities less than one year) and using targeted allocations between these vehicles with, at minimum, annual rebalancing to maintain the strategic allocation goals.

The Society currently maintains two endowments, the first for spaying and neutering programs and the second as an endowment for the Society to care for animals and cover the costs of its related programs.

Endowment funds activity for the year is as follows:

	<u>First Endowment</u>	<u>Second Endowment</u>	<u>Total</u>
Beginning of year balance	\$ 49,502	\$ 25,100	\$ 74,602
Contributions	-	5,000	5,000
Transfer of Board designated funds	-	75,000	75,000
Investment income, net of fees	(710)	9	(701)
Market value adjustments	<u>4,075</u>	<u>-</u>	<u>4,075</u>
End of year balance	<u>\$ 52,867</u>	<u>\$105,109</u>	<u>\$157,976</u>
Reported as:			
Unrestricted net assets,			
Board designated	\$ <u>-</u>	\$ <u>75,000</u>	\$ <u>75,000</u>
Balance in permanently restricted net assets	<u>\$ 54,420</u>	<u>\$ 30,000</u>	<u>\$ 84,420</u>

**Property and Equipment**

Capital assets are defined by the Society as assets with an initial individual cost of \$1,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of property and equipment is provided using the straight-line method at rates based on the following estimated useful lives:

	<u>Years</u>
Building	10 - 50
Equipment	3 - 25
Vehicles	3 - 4

**Donated Property and Equipment**

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Cascades Humane Society, Inc., reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Temporarily restricted net assets are reclassified to unrestricted net assets at that time.

**Cascades Humane Society, Inc.**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Donated Services**

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society. No services meeting these criteria were donated during the reported years. However, volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. These services primarily related to the care of animals and the related programs.

**Restricted and Unrestricted Revenue**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

**Promises to Give**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend on are substantially met and the promises unconditional.

**Advertising**

Cascades Humane Society, Inc. uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$15,564 and \$29,171 for each year-end, respectively.

**Reclassifications**

Certain balances in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications do not impact changes in net assets.

**2. Investments**

FASB has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

*Level 1 Fair Value Measurements:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

**Cascades Humane Society, Inc.**  
Notes to Financial Statements

**2. Investments (Continued)**

*Level 2 Fair Value Measurements:* Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3 Fair Value Measurements:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in valuation methodologies from the previous year.

*Certificates of deposit:* Valued at the cost plus accrued interest at end of reporting period.

*Mutual funds:* Valued at the market price as provided by the brokerage.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 184,876	\$ -	\$ -	\$ 184,876
Donated life insurance, CSV	18,000	-	-	18,000
Mutual funds	<u>52,867</u>	<u>-</u>	<u>-</u>	<u>52,867</u>
Total assets at fair value	<u>\$ 255,743</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,743</u>

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 131,646	\$ -	\$ -	\$ 131,646
Mutual funds	<u>49,502</u>	<u>-</u>	<u>-</u>	<u>49,502</u>
Total assets at fair value	<u>\$ 181,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,148</u>

**Cascades Humane Society, Inc.**  
Notes to Financial Statements

**2. Investments (Continued)**

Currently, the permanently restricted net assets donated through a bequest to provide for the care of animals is undervalued by \$1,553. As the market value increases, the investment will be reestablished at its required holding value and the valuation changes will flow through unrestricted net assets as required by generally accepted accounting principles.

**3. Property and Equipment**

Land, building, equipment and vehicles at December 31, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 252,129	\$ 252,129
Building	1,476,633	1,453,324
Equipment	203,988	181,973
Vehicles	<u>7,598</u>	<u>7,598</u>
	1,940,348	1,895,024
Less: accumulated depreciation	<u>309,187</u>	<u>281,142</u>
Property and equipment – net	<u>\$ 1,631,161</u>	<u>\$ 1,613,882</u>
Depreciation expense	<u>\$ 46,581</u>	<u>\$ 46,750</u>

**4. Restrictions on Net Assets**

A portion of the unrestricted net assets has been Board designated for endowment investment purposes - \$75,000 and \$0, at each year-end, respectively.

For the year ended December 31, 2010, there was \$5,000 of net assets determined to be temporarily restricted for facility upgrades. For the year ended December 31, 2009, temporarily restricted net assets consisted of \$5,000 for animal medicines and vaccines for disease management.

Permanently restricted net assets consist of an endowment bequest of \$54,420 held in a trust account, the income from which is used to provide care for animals, plus \$30,000 contributed into a general endowment fund.

**5. Donated Services, Materials and Facilities**

Donated items are included in the financial statements at their estimated fair market value at date of receipt. Such items totaled \$38,767 and \$23,980 for each year-end, respectively, and consist mainly of pet food and supplies. No donated services were recognized (see Note 1). Volunteer hours were over 10,000 for each year.

**6. Subsequent Events**

The Society is changing its fiscal year-end from December 31 to June 30, effective June 30, 2011. The switch is primarily to create a more workable time frame for the budget process.

**Cascades Humane Society, Inc.**  
Schedules of Functional Expenses  
Years Ended December 31, 2010 and 2009

	<u>Program Services</u>	<u>Supporting Services</u>			<u>2010 Total Expenses</u>	<u>2009 Total Expenses</u>
		<u>General &amp; Administration</u>	<u>Fundraising</u>	<u>Total Support</u>		
<b>Expenses:</b>						
Salaries and related expenses:						
Salaries	\$ 248,366	\$ 25,363	\$ 59,700	\$ 85,063	\$ 333,429	\$ 325,878
Payroll taxes and benefits	40,339	4,385	9,169	13,554	53,893	42,146
Total salaries and related expenses	<u>288,705</u>	<u>29,748</u>	<u>68,869</u>	<u>98,617</u>	<u>387,322</u>	<u>368,024</u>
Newsletter	4,026	-	4,026	4,026	8,052	9,347
Animal care expenses	111,138	-	-	-	111,138	108,858
Repairs and maintenance	15,491	1,721	-	1,721	17,212	8,212
Special events	1,972	-	15,787	15,787	17,759	26,778
Utilities	33,343	3,705	-	3,705	37,048	37,633
Insurance	5,479	609	-	609	6,088	8,263
Professional fees	19,710	2,190	-	2,190	21,900	21,331
Bank fees	4,640	515	-	515	5,155	4,632
Telephone	-	-	-	-	-	4,559
Advertising and marketing	27,892	-	-	-	27,892	29,171
Staff training	293	-	-	-	293	286
Board expenses	1,432	1,432	1,432	2,864	4,296	3,803
Auto expense	3,196	-	-	-	3,196	781
Miscellaneous	2,931	-	-	-	2,931	5,814
Contract labor	-	-	-	-	-	5,020
Office expense	3,974	5,965	364	6,329	10,303	11,768
Total expenses before depreciation	<u>524,222</u>	<u>45,885</u>	<u>90,478</u>	<u>136,363</u>	<u>660,585</u>	<u>654,280</u>
Depreciation	41,923	4,658	-	4,658	46,581	46,750
Total expenses	<u>\$ 566,145</u>	<u>\$ 50,543</u>	<u>\$ 90,478</u>	<u>\$ 141,021</u>	<u>\$ 707,166</u>	<u>\$ 701,030</u>

See Notes to Financial Statements.