

FRIENDS FOR THE DEARBORN ANIMAL SHELTER

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Friends for the Dearborn Animal Shelter
Dearborn, MI 48120

I have audited the accompanying financial statements of Friends for the Dearborn Animal Shelter (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility


My responsibility is to express an opinion on these financial statements based on my audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends for the Dearborn Animal Shelter as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Deborah M. Kowalczyk, P.C.
November 8, 2013

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 520,196
Cash and cash equivalents rainy day	200,000
Cash and cash equivalents new shelter	189,062
Account receivable	0
Prepaid expenses	8,198
Inventory	5,811
	5,811

TOTAL CURRENT ASSETS 923,267

PROPERTY AND EQUIPMENT 27,292

NEW SHELTER LONG-TERM INVESTMENTS 87,406

ENDOWMENT LONG-TERM INVESTMENTS 578,570

TOTAL ASSETS \$ 1,616,535

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 31,407
Sales taxes	344
Deferred income	0
	0

TOTAL CURRENT LIABILITIES 31,751

NET ASSETS

Unrestricted	750,805
Temporarily restricted	278,518
Permanently restricted	555,461
	555,461

TOTAL NET ASSETS 1,584,784

TOTAL LIABILITIES AND NET ASSETS \$ 1,616,535

See auditor's report and accompanying notes

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Fundraising				
Merchandise sales	\$ 17,730	\$	\$	\$ 17,730
Black tie	121,637			121,637
Mutt strut	84,070			84,070
Cool Cat Casino	17,571			17,571
	<u>241,008</u>	<u>0</u>	<u>0</u>	<u>241,008</u>
Less donor direct benefit costs	<u>(56,438)</u>			<u>(56,438)</u>
	184,570	0	0	184,570
Contributions				
City of Dearborn and fees	94,746			94,746
Adoption fees	105,056			105,056
New shelter		141,575		141,575
Small event contributions	85,905			85,905
Other	839,540			839,540
Spay day, fix-a-feline microchip and training programs	47,042			47,042
Grants	17,414			17,414
Interest and dividends	23,810	3,110		26,920
Investment gains	34,905	5,561		40,466
Other revenue	3,895			3,895
Net assets released from restrictions				
Restrictions satisfied by payments	66,294	(66,294)		0
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>1,503,177</u>	<u>83,952</u>	<u>0</u>	<u>1,587,129</u>
EXPENSES AND LOSSES				
Program services	902,521			902,521
Supporting services				
Management and general	74,349			74,349
Fundraising	219,106			219,106
TOTAL EXPENSES	<u>1,195,976</u>	<u>0</u>	<u>0</u>	<u>1,195,976</u>
CHANGE IN NET ASSETS	307,201	83,952	0	391,153
NET ASSETS AT BEGINNING OF YEAR				
	<u>443,604</u>	<u>194,566</u>	<u>555,461</u>	<u>1,193,631</u>
NET ASSETS AT END OF YEAR	<u>\$ 750,805</u>	<u>\$ 278,518</u>	<u>\$ 555,461</u>	<u>\$ 1,584,784</u>

See auditor's report and accompanying notes

FRIENDS FOR THE DEARBORN ANIMAL SHELTER

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and related expenses				
Compensation	\$ 405,017	\$ 32,317	\$ 69,482	\$ 506,816
Employee benefits	14,537		5,454	19,991
Payroll taxes	38,648	3,104	5,854	47,606
Total compensation	<u>458,202</u>	<u>35,421</u>	<u>80,790</u>	<u>574,413</u>
Other expenses				
Advertising	388	25	171	584
Audit and payroll service		13,820		13,820
Bank and credit card fees		8,454	3,167	11,621
Database development	2,272	268	1,163	3,703
Depreciation	3,963	1,007	404	5,374
Fundraising - mail and small events			54,471	54,471
Fundraising and manage major events		306	9,452	9,758
Insurance - liability	5,282	1,690		6,972
Insurance - workman's comp	4,475	351	894	5,720
Microchips	7,460			7,460
Newsletter	6,358	596	2,980	9,934
Occupancy and telephone	46,330			46,330
Office and board	7,365	6,373		13,738
Printing and postage		3,231		3,231
Repairs, maintenance and rental	6,423	711		7,134
Spay day, fix a feline, training etc	45,675			45,675
Veterinary services	201,428			201,428
Pet supplies and care	91,719			91,719
Cat housing	4,264			4,264
Van costs	5,296			5,296
Volunteer costs and other	5,621	2,096		7,717
Total other expenses	<u>444,319</u>	<u>38,928</u>	<u>72,702</u>	<u>555,949</u>
Total expenses before new shelter	<u>902,521</u>	<u>74,349</u>	<u>153,492</u>	<u>1,130,362</u>
New Shelter consulting			31,100	31,100
New Shelter fundraising			20,906	20,906
New Shelter payroll and benefits			13,608	13,608
Total expenses	<u>\$ 902,521</u>	<u>\$ 74,349</u>	<u>\$ 219,106</u>	<u>\$ 1,195,976</u>

See auditor's report and accompanying notes

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ 391,153
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Stock donation included in contributions	(37,192)
(Gain) loss on sale of stock	790
Unrealized (gains) losses	(41,052)
Depreciation	5,374
(Increase) decrease in operating assets:	
Accounts receivable	3,750
Prepaid expenses	922
Inventory	249
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(6,960)
Sales taxes	(184)
Deferred income	<u>0</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	316,850
 CASH FLOWS FROM INVESTING ACTIVITIES	
Sales of investments	36,402
Purchase washer and dryer	(16,600)
Purchase software	(4,600)
Improvements to training center	<u>(4,903)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	10,299
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>327,149</u>
BEGINNING CASH AND CASH EQUIVALENTS	<u>582,109</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 909,258</u></u>

See auditor's report and accompanying notes

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE A - ACCOUNTING POLICIES

Nature of Activities

Friends for the Dearborn Animal Shelter are dedicated to the rescue and protection of animals in the community, while inspiring healthy relationships between people and their companion animals. As animal advocates, we are committed to saving all adoptable animals, providing high quality animal care and adoption services, delivering innovative outreach programs and activities that promote education, promoting animal welfare legislation and embracing environmental responsibility with earth-friendly practices and facilities.

Basis of Accounting

The financial statements of Friends for the Dearborn Animal Shelter (a nonprofit corporation) have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

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. Temporarily restricted net assets consisted of the following at the beginning and ending of the year:

	<u>Beginning</u>	<u>Ending</u>
Board Development	\$ 10	\$ 0
Animal Grants	2,721	2,050
Planned adoption center	<u>191,835</u>	<u>276,468</u>
	<u>\$194,566</u>	<u>\$278,518</u>

Permanently restricted assets consists of the endowment received during 2009 in the amount of \$555,461.

Advertising

The Organization used advertising to promote its programs among the audience it serves. The costs of advertising are expensed the first time advertising takes place. Total advertising costs for the year ended December 31, 2012 were \$584.

Bad Debts

Management reviews the outstanding accounts receivable at year end, as well as previous bad debt write offs and establishes an allowance for uncollectible amounts. The allowance for doubtful accounts as of December 31, 2012 was \$0.

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE A - ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted and temporarily restricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Donated Assets

Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

Donated Facilities

For the year ended December 31, 2012 the organization included as contributions \$46,000 for use of shelter facilities provided for by the City of Dearborn and \$18,000 for use of dog training facilities.

Donated Services

For the year ended December 31, 2012 the organization included as contributions \$1,500 for accounting services and \$128,565 for veterinarian services. In addition, numerous individuals volunteer their time and perform a variety of tasks that assist the organization. The Organization received 15,275 volunteer hours for fundraising activities, administrative support and various committee assignments for the year ended December 31, 2012. In addition, many volunteers foster animals in their home and donated 6,413 days for the care of those animals. No amounts have been reflected in the financial statements for the volunteer hours.

Donated Supplies

For the year ended December 31, 2012 the organization included as contributions \$37,639 for pet, event and office supplies donated by businesses and individuals.

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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charges to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE A - ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and, accordingly, no provision has been made for such taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Inventories

Inventories as of December 31, 2012 consisted of toys, logo clothing and other animal related items for sale. Inventories are valued at the lower of cost or market determined by the average cost method.

Investments

Investments in marketable equity securities with readily determinable fair values are stated at fair values. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized. Short-term investments consist of debt and equity securities with original maturities of twelve months or less. Long-term investments consist of debt and equity securities with original maturities of greater than twelve months.

Operating Lease

The organization is leasing a copy machine under a five year noncancelable lease starting in February 2010 expiring in January 2015. The following is a schedule of future minimum lease payments required under the lease:

<u>Year ended</u>	<u>Amount</u>
December 31, 2013	2,772
December 31, 2014	2,772
December 31, 2015	231

For the year ended December 31, 2012 rental expense including usage was \$3,216.

Property and Equipment

Acquisitions of property and equipment and expenditures for repairs and betterment's that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight line method. Depreciation expense for the year ended December 31, 2012 was \$5,374.

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE A - ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (continued)

As of December 31, 2012 property and equipment consisted of the following:

Furniture and equipment	\$38,881
Van	20,345
Computer equipment	8,668
Software	<u>4,940</u>
	72,834
Less accumulated depreciation	<u>45,542</u>
Total property and equipment	<u>\$27,292</u>

Restricted and Unrestricted Revenue

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets, if the restrictions expire in the reporting period in which the revenue is recognized.

NOTE B - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

The following program and supporting services are included in the accompanying financial statements:

Program

Includes providing loving care for lost or unwanted animals, adoptions of great pets to quality homes, reuniting lost pets with their owners, educational outreach to promote humane care, spay and neuter programs, microchip programs, dog training and assistance to pet owners.

Management and General

Includes the functions necessary to maintain an equitable employment program; ensure adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of the Organization.

Fundraising

Provides the financial resources necessary to encourage and secure private financial support from individuals, foundations and corporations.

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2012 was \$0.

NOTE D - PLANNED ADOPTION AND EDUCATION CENTER

The Organization is currently planning for a new adoption and education center located in the City of Dearborn. Net proceeds from specific events are being restricted for current and future costs for this project. Costs are being allocated as preacquisition, acquisition, development and construction costs. For the year ended December 31, 2012 no costs were incurred for construction.

NOTE E - CITY OF DEARBORN

The Organization receives a monthly subsidy from the City of Dearborn. The Organization received \$75,000 from the City of Dearborn for the year ended December 31, 2012. The subsidy is renewed annually for the period July 1, to June 30.

NOTE F - COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE G - CONCENTRATIONS

The organization maintains its cash accounts in bank deposit accounts, which exceed federally insured limits.

NOTE H - ENDOWMENT

The endowment consists of a donor established endowment fund received in 2009. The Board of Directors intends that the principal remain intact and all earnings would be paid out to support the needs of the Organization. There were no contributions to the Endowment Funds during 2012. The endowment's investment return was \$20,593 in investment income, \$0 of realized gain and \$35,691 of unrealized gains for the year ended December 31, 2012. Transfers of earnings of \$23,048 were used for expenditures. No investments were sold. The total investment return was appropriated for expenditure. The endowment fund is invested in debt and equity mutual funds with readily determined fair values.

FRIENDS FOR THE DEARBORN ANIMAL SHELTER
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE H – ENDOWMENT (CONTINUED)

The Board of Directors has interpreted the Michigan Uniform Management of Institutional Funds Act (Michigan UMIFA, "the Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment fund that is not classified as permanently restricted net assets, is classified as temporarily restricted net assets until the expenditures are made.

The Board of Directors has determined the primary investment objective is to preserve capital and obtain reasonable income/yields within prudent levels of risk. In order to efficiently diversify risks, all investments should be made through reputable mutual funds with no load or C-share pricing and rated no lower than 4 stars by Morningstar Services. Performance will be assessed by comparison to S&P 500 returns for equity funds and by comparison to BarCap US Agg Bond TR USD for income funds.

The Board of Directors has determined investments in mutual funds should be diversified to mitigate risk and balance returns. Income funds should be targeted to comprise 50% of the endowment value and equity funds comprise 50% of the endowment value. No more than 20% of the endowment value should be invested in any one fund, and investments in aggressive/risky funds is prohibited.

NOTE I – FUND-RAISING COSTS

Total fund-raising costs for the year ended December 31, 2012 was \$275,544. This includes direct benefits to donors, directly identifiable expenses and joint cost allocations.

NOTE J – SUBSEQUENT EVENTS

Subsequent events were evaluated through November 8, 2013, which is the date the financial statements were available to be issued.