

Audited Financial Statements

MARQUETTE COUNTY HUMANE SOCIETY, INC.

May 31, 2010

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MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marquette County Humane Society, Inc.
Negaunee, Michigan

We have audited the accompanying statements of financial position of the Marquette County Humane Society, Inc., (a non-profit corporation) as of May 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Marquette County Humane Society, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 the Marquette County Humane Society, Inc., as of May 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Makela, Toutant, Hill + Nardi, P.C.

July 30, 2010



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STATEMENTS OF FINANCIAL POSITION

MARQUETTE COUNTY HUMANE SOCIETY, INC.

	May 31	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 67,775	\$ 27,769
Accounts receivable	2,631	3,080
Bequest receivable	210,000	65,872
Pledges receivable, current portion	7,341	5,750
TOTAL CURRENT ASSETS	<u>287,747</u>	<u>102,471</u>
OTHER ASSETS		
Pledges receivable, net of current portion and allowance	300	5,241
Investments	174,959	83,739
Beneficial interest in assets held by community foundation	87,543	73,602
	<u>262,802</u>	<u>162,582</u>
PROPERTY, PLANT, AND EQUIPMENT		
Land	9,800	9,800
Buildings and improvements	176,958	176,958
Vehicles	21,643	21,643
Office and kennel equipment	10,683	12,678
	<u>219,084</u>	<u>221,079</u>
Less accumulated depreciation	173,333	166,660
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>45,751</u>	<u>54,419</u>
TOTAL ASSETS	<u>\$ 596,300</u>	<u>\$ 319,472</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 6,890	\$ 26,620
Accrued payroll and payroll taxes	8,334	6,478
Accrued benefits	3,790	3,790
Line of credit		29,918
TOTAL CURRENT LIABILITIES	<u>19,014</u>	<u>66,806</u>
NET ASSETS		
Unrestricted	265,251	2,006
Temporarily restricted	22,743	16,358
Permanently restricted	289,292	234,302
TOTAL NET ASSETS	<u>577,286</u>	<u>252,666</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 596,300</u>	<u>\$ 319,472</u>

See notes to the financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

MARQUETTE COUNTY HUMANE SOCIETY, INC.

	Year Ended May 31, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Shelter revenue	\$ 91,475			\$ 91,475
Direct public support	135,939	\$ 21,403		157,342
Bequests	214,000		\$ 54,690	268,690
Donated stock	15,280			15,280
Revenues from fundraising events and special projects	89,759			89,759
Fund development campaign	75		300	375
Governmental contracted services	20,355			20,355
Grants	1,000			1,000
Donated services, materials, and facility	28,688			28,688
Interest and dividends	3,502			3,502
Distribution of earnings from community foundation	1,887			1,887
Change in value of beneficial interest in assets held by community foundation (net of \$1,027 of investment expenses)	13,941			13,941
Appreciation of investments	14,860			14,860
Other	5,917			5,917
Net assets released from restrictions	15,018	(15,018)		
TOTAL SUPPORT AND REVENUE	651,696	6,385	54,990	713,071
EXPENSES				
Program services	313,158			313,158
Supporting services:				
Management and general	55,524			55,524
Fundraising	19,769			19,769
TOTAL SUPPORTING SERVICES	75,293	0	0	75,293
TOTAL EXPENSES	388,451	0	0	388,451
CHANGE IN NET ASSETS	263,245	6,385	54,990	324,620
Net assets at beginning of year	2,006	16,358	234,302	252,666
NET ASSETS AT END OF YEAR	\$ 265,251	\$ 22,743	\$ 289,292	\$ 577,286

See notes to the financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

MARQUETTE COUNTY HUMANE SOCIETY, INC.

	Year Ended May 31, 2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Shelter revenue	\$ 99,160			\$ 99,160
Direct public support	134,885	\$ 13,760	\$ 5,412	154,057
Bequests	65,872			65,872
Revenues from fundraising events and special projects	37,865			37,865
Fund development campaign	4,461		12,100	16,561
Governmental contracted services	26,338			26,338
Grants	6,400			6,400
Donated services, materials, and facility	30,194			30,194
Interest and dividends	3,905			3,905
Distribution of earnings from community foundation	2,000			2,000
Change in value of beneficial interest in assets held by community foundation (net of \$1,510 of investment expenses)	(17,916)			(17,916)
Depreciation of investments	(30,700)			(30,700)
Other	4,475			4,475
Net assets released from restrictions	14,852	(14,852)		
TOTAL SUPPORT AND REVENUE	381,791	(1,092)	17,512	398,211
EXPENSES				
Program services	334,203			334,203
Supporting services:				
Management and general	64,651			64,651
Fundraising	11,494			11,494
TOTAL SUPPORTING SERVICES	76,145	0	0	76,145
TOTAL EXPENSES	410,348	0	0	410,348
CHANGE IN NET ASSETS	(28,557)	(1,092)	17,512	(12,137)
Net assets at beginning of year	30,563	17,450	216,790	264,803
NET ASSETS AT END OF YEAR	\$ 2,006	\$ 16,358	\$ 234,302	\$ 252,666

See notes to the financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE COUNTY HUMANE SOCIETY, INC.

	Year Ended May 31	
	2010	2009
CASH FLOW PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ 324,620	\$ (12,137)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	8,668	10,382
(Appreciation) Depreciation in fair value of investments	(14,860)	30,700
Donated securities included in contributions	(15,280)	
Change in beneficial interest in assets held by community foundation	(13,941)	17,916
Contributions restricted for long-term purposes	(54,690)	(10,991)
(Increase) Decrease in:		
Accounts receivable	449	(49)
Pledges receivable	3,350	
Inventory		50
Bequest receivable	(144,128)	(65,872)
Other assets		1,045
Increase (Decrease) in:		
Accounts payable	(19,730)	(7,409)
Other current liabilities	1,856	(619)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>76,314</u>	<u>(36,984)</u>
INVESTING ACTIVITIES		
Purchases of securities	(76,080)	(21,090)
Sales of securities	15,000	21,247
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(61,080)</u>	<u>157</u>
FINANCING ACTIVITIES--Net (payments) draws on line of credit		
Net (payments) draws on line of credit	(29,918)	3,823
Proceeds from contributions restricted for long-term purposes	54,690	
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>24,772</u>	<u>3,823</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>40,006</u>	<u>(33,004)</u>
Cash and cash equivalents and beginning of year	<u>27,769</u>	<u>60,773</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 67,775</u>	<u>\$ 27,769</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 653	\$ 1,646

See notes to the financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

MARQUETTE COUNTY HUMANE SOCIETY, INC.

	Year Ended May 31, 2010			
	Program Services	Management and General	Fundraising	Total Expenses
Payroll expenses	\$ 134,513	\$ 24,712		\$ 159,225
Veterinary and medical supplies	109,580			109,580
Food for animals	3,737			3,737
Animal equipment	4,728			4,728
Utilities	9,835	518		10,353
Insurance	3,005	167	\$ 167	3,339
Custodial supplies/service	6,549			6,549
Office supplies	3,219	179	179	3,577
Repairs and maintenance	4,626			4,626
Travel/Vehicle expenses	1,486			1,486
Publication expenses	8,705			8,705
Community awareness	1,893			1,893
Conferences	183			183
Donated services/materials	12,778			12,778
Professional fees		22,663		22,663
Fundraising events and projects			19,210	19,210
Dog license expense	327			327
Depreciation	6,501	2,167		8,668
Bank fees	1,493	427	213	2,133
Interest expense		653		653
Bad debt expense		300		300
Miscellaneous		3,738		3,738
TOTAL FUNCTIONAL EXPENSES	\$ 313,158	\$ 55,524	\$ 19,769	\$ 388,451

See notes to the financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

MARQUETTE COUNTY HUMANE SOCIETY, INC.

	Year Ended May 31, 2009			Total Expenses
	Program Services	Management and General	Fundraising	
Payroll expenses	\$ 136,567	\$ 26,590		\$ 163,157
Veterinary and medical supplies	134,778			134,778
Food for animals	4,393			4,393
Animal equipment and supplies	3,497			3,497
Utilities	10,375	546		10,921
Insurance	2,111	111		2,222
Custodial supplies/service	6,829			6,829
Office supplies	3,603	190		3,793
Repairs and maintenance	2,522			2,522
Vehicle expenses	1,268			1,268
Publication expenses	9,868			9,868
Community awareness	1,826			1,826
Donated services/materials	8,434			8,434
Professional fees		26,849		26,849
Fundraising events and projects			\$ 11,494	11,494
Dog license expense	345			345
Depreciation	7,787	2,595		10,382
Bank fees		2,207		2,207
Interest expense		1,646		1,646
Miscellaneous		3,917		3,917
TOTAL FUNCTIONAL EXPENSES	\$ 334,203	\$ 64,651	\$ 11,494	\$ 410,348

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

MARQUETTE COUNTY HUMANE SOCIETY, INC.

May 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Marquette County Humane Society, Inc., (Society) is a non-profit organization whose purpose is to ensure the safety and protection of all animals. Services provided by the Society include care and shelter of stray animals, adoption service, neglect/cruelty referrals, lost and found service, humane education, and community awareness campaigns. The Society's main source of revenue is public contributions.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and short-term, highly liquid investments with original maturities of three months or less.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statements of financial position based on quoted market prices. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets.

Pledges Receivable

Unconditional promises to give are recognized as revenue in the period received. Pledges receivable are recorded at net realizable value. The Society uses the allowance method to estimate uncollectible pledges receivable, which management estimated to be \$2,000 as of May 31, 2010.

Land, Buildings, and Equipment

Fixed assets are obtained through purchase and donation. Purchased assets are recorded at cost; donated assets are recorded at their fair market value at the date of donation. Fixed assets are depreciated using the straight line method, over the projected life of the assets. The buildings and improvements are being depreciated over 30 years, new equipment over seven years, and used equipment over five years. The Society capitalizes all fixed assets valued greater than \$1,000.

MARQUETTE COUNTY HUMANE SOCIETY, INC.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Net Assets

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence and/or nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Services and Materials

Under the Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 958-605, *Not-for-Profit Entities - Revenue Recognition*, the Society recognizes services requiring specialized skills such as those provided by accountants, attorneys, and other professionals if the services would need to be purchased if not donated. The amount of such donated services recorded and reflected in the accompanying financial statements was \$16,400 and \$20,000 for the years ended May 31, 2010 and 2009, respectively.

Donated materials are recorded as revenues and expenses at their estimated fair values in the period received. Donated goods are rarely resold by the Society and consist mainly of items used in shelter operations, such as food, supplies, and similar items. The Society recognized \$12,288 and \$10,194 of donated materials for the years ended May 31, 2010 and 2009, respectively.

Use of Estimates

Preparation of the Society's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the use of management's estimates. Actual results could differ from these estimates.

Reclassifications

Certain amounts as of and for the year ended May 31, 2009, have been reclassified to conform to the current year's presentation.

Subsequent Events

Subsequent events were evaluated through July 30, 2010, which was the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY HUMANE SOCIETY, INC.

NOTE B--INCOME TAX STATUS

The Society, a publicly supported organization, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly, has recorded no liability for federal income taxes during the year. Additionally, the Society is exempt from federal unemployment taxes under the same section of the Internal Revenue Code.

NOTE C--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are donor restricted for the following purposes:

	May 31	
	2010	2009
Capital projects:		
New feline facility	\$ 3,449	\$ 3,449
Building improvements	1,936	
Horse protection and education	12,598	11,747
Vet services and comfort items for shelter dogs	941	891
Pet interaction at nursing homes	271	271
Feline leukemia testing	1,784	
Emergency vet care	1,764	
	<u> </u>	<u> </u>
TOTAL	<u>\$ 22,743</u>	<u>\$ 16,358</u>

NOTE D--PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are donor restricted for the following purposes:

The parcel of land was transferred to the Society on May 14, 2001, by the Board of County Road Commissioners for the County of Marquette via Quit-Claim Deed for as long as the property is used as an animal shelter.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY HUMANE SOCIETY, INC.

NOTE D--PERMANENTLY RESTRICTED NET ASSETS--Continued

In 2004, the Society contributed assets to the Marquette Community Foundation (Foundation) to establish the Marquette County Humane Society Agency Fund (Fund). The Society named itself as the beneficiary of the expendable earnings, which are to be distributed at least annually. The Society granted variance power to the Foundation, whereby if the Fund is terminated or if the Foundation dissolves, ceases to exist, or ceases to hold or administer the funds, the governing board of the Foundation shall distribute the net assets as it chooses, giving primary consideration to the Society or to an organization or purpose recommended by the Society. In accordance with FASB ASC 958-20, *Not-for-Profit Entities - Financially Interrelated Entities*, these amounts are reported on the Society's statement of financial position as a beneficial interest in assets held by others. Earning distributions are recognized as an increase in unrestricted net assets

Finally, permanently restricted net assets include amounts designated by donors for an endowment fund. Income earned on investments may be used for general purposes.

NOTE E--CONCENTRATION OF CREDIT RISK

Substantially, all transactions of the Society are conducted in Marquette County, Michigan; therefore, the Society is affected by regional economic conditions.

NOTE F--COMMITMENTS

The Society has contracts with the City of Marquette, Marquette County, Negaunee Township, Ely Township, and Chocolay Township, which require it to provide various types of care for stray animals. All contracts are open-ended, with either party able to cancel the contract: some contracts require 20-days notice, while other contracts are silent. The Society issues monthly invoices for services rendered.

NOTE G--LINE OF CREDIT

The Society has a \$50,000 line of credit with a bank. The line of credit is revolving, expiring on December 1, 2011, and bears interest at one percent above the prime rate, with a minimum of five percent. During the year, the Society closed and paid off a \$30,000 line of credit with a different bank. Amounts drawn on the lines of credit were \$0 and \$29,918, as of May 31, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY HUMANE SOCIETY, INC.

NOTE H--INVESTMENTS

Market value and unrealized appreciation (depreciation) on investments are as follows:

	May 31, 2010		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 3,213	\$ 3,213	
Mutual funds	108,945	102,310	\$ (6,635)
Corporate bond	14,897	15,734	837
Preferred stock	20,178	16,505	(3,673)
Common stock	34,171	31,378	(2,793)
Other	7,088	5,819	(1,269)
TOTAL AT END OF YEAR	<u>\$ 188,492</u>	<u>\$ 174,959</u>	<u>\$ (13,533)</u>
	May 31, 2009		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 2,725	\$ 2,725	
Mutual funds	56,945	42,968	\$ (13,977)
Government and agency	14,840	14,978	138
Preferred stock	20,178	13,829	(6,349)
Common stock	13,881	6,916	(6,965)
Other	3,404	2,323	(1,081)
TOTAL AT END OF YEAR	<u>\$ 111,973</u>	<u>\$ 83,739</u>	<u>\$ (28,234)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY HUMANE SOCIETY, INC.

NOTE H--INVESTMENTS--Continued

The following table presents information about the Society's investments measured at fair value on a recurring basis at May 31, and the valuation techniques used by the Society to determine those fair values. The FASB ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; Level 3 inputs consist of unobservable inputs and have the lowest priority. The Society uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>May 31, 2010</u>				
Short-term investments	\$ 3,213	\$ 3,213		
Mutual funds	102,310	102,310		
Corporate bond	15,734	15,734		
Preferred stock	16,505	16,505		
Common stock	31,378	16,098	\$ 15,280	
Other	5,819	5,819		
TOTAL INVESTMENT SECURITIES	\$ 174,959	\$ 159,679	\$ 15,280	\$ 0
<u>May 31, 2009</u>				
Short-term investments	\$ 2,725	\$ 2,725		
Mutual funds	42,968	42,968		
Preferred stock	13,829	13,829		
Common stock	6,916	6,916		
Government and agency	14,978	14,978		
Other	2,323	2,323		
TOTAL INVESTMENT SECURITIES	\$ 83,739	\$ 83,739	\$ 0	\$ 0

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY HUMANE SOCIETY, INC.

NOTE I--PLEDGES RECEIVABLE

Pledges receivable represent outstanding pledges for the Fund Development Program (Program). The Program's goal was to raise both operating and endowment funds over a five-year time period (calendar year). A portion of each year's contributions is available for current operations and the remainder will be permanently endowed.

Pledges receivable are as follows:

	<u>May 31, 2010</u>
Receivable in less than one year	\$ 7,341
Receivable in two to five years	<u>2,300</u>
Gross receivables	9,641
Less allowance for uncollectible pledges	<u>(2,000)</u>
NET UNCONDITIONAL PLEDGES RECEIVABLE	<u>\$ 7,641</u>

NOTE J--ENDOWMENT FUND

The Society follows the Uniform Prudent Management of Institutional Funds Act of 1972 (UPMIFA) and its own governing documents. UPMIFA requires the historical dollar amount of a donor-restricted endowment fund (Fund) to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UPMIFA. The Society's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

The Board of Directors, upon recommendation from the Finance Committee, determines a percentage of earnings to be distributed each year.

The following represents the Fund net assets composition as of May 31, 2010:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor designated endowment funds	<u>\$ (8,044)</u>	<u>\$ 179,492</u>	<u>\$ 171,448</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY HUMANE SOCIETY, INC.

NOTE J--ENDOWMENT FUND--Continued

The following represents the changes in the Fund net assets for the year ended May 31, 2010:

	Unrestricted	Permanently Restricted	Total
Endowment fund net assets (deficit) at June 1, 2008	\$ 4,072	\$ 106,990	\$ 111,062
Investment return			
Investment income	4,686		4,686
Realized depreciation	(30)		(30)
Unrealized depreciation	(30,670)		(30,670)
Total investment return	(26,014)		(26,014)
Contributions		17,512	17,512
Appropriation of endowment assets for expenditure	(2,867)		(2,867)
Endowment fund net assets (deficit) at May 31, 2009	<u>\$ (24,809)</u>	<u>\$ 124,502</u>	<u>\$ 99,693</u>
	Unrestricted	Permanently Restricted	Total
Endowment fund net assets (deficit) at June 1, 2009	\$ (24,809)	\$ 124,502	\$ 99,693
Investment return			
Investment income	6,047		6,047
Realized appreciation	160		160
Unrealized appreciation	14,558		14,558
Total investment return	20,765		20,765
Contributions		54,990	54,990
Appropriation of endowment assets for expenditure	(4,000)		(4,000)
Endowment fund net assets (deficit) at May 31, 2010	<u>\$ (8,044)</u>	<u>\$ 179,492</u>	<u>\$ 171,448</u>

The market value of endowment investments as of May 31, 2010, approximated \$171,448 and is \$8,044 less than the amounts required by donors and UPMIFA.