

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

May 31, 2014

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Upper Peninsula Animal Welfare Shelter
Negaunee, Michigan

We have audited the accompanying financial statements of the Upper Peninsula Animal Welfare Shelter (a non-profit corporation), which comprise the statements of financial position as of May 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years 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

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 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 we 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.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Peninsula Animal Welfare Shelter as of May 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marquette, Michigan

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

December 17, 2014

Our goal is to help you meet yours!

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STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

	May 31	
	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 479,590	\$ 341,494
Accounts receivable	1,628	2,892
Bequest receivable		15,000
Pledges receivable, current portion		250
TOTAL CURRENT ASSETS	<u>481,218</u>	<u>359,636</u>
OTHER ASSETS		
Pledges receivable, non-current		1,000
Investments	212,289	202,948
Beneficial interest in assets held by community foundation	100,764	99,814
	<u>313,053</u>	<u>303,762</u>
PROPERTY, PLANT, AND EQUIPMENT		
Land	9,800	9,800
Buildings and improvements	188,544	188,544
Vehicles	21,643	21,643
Office and kennel equipment	10,683	10,683
	<u>230,670</u>	<u>230,670</u>
Less accumulated depreciation	197,761	194,229
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>32,909</u>	<u>36,441</u>
TOTAL ASSETS	<u>\$ 827,180</u>	<u>\$ 699,839</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 19,919	\$ 23,353
Accrued payroll and payroll taxes	13,225	8,129
Accrued benefits	5,493	4,478
TOTAL CURRENT LIABILITIES	<u>38,637</u>	<u>35,960</u>
NET ASSETS		
Unrestricted	459,480	346,678
Temporarily restricted	34,871	24,449
Permanently restricted	294,192	292,752
TOTAL NET ASSETS	<u>788,543</u>	<u>663,879</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 827,180</u>	<u>\$ 699,839</u>

See notes to the financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended May 31, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Shelter revenue	\$ 73,779			\$ 73,779
Direct public support	178,613	\$ 46,654	\$ 1,440	226,707
Bequests	133,221			133,221
Revenues from fundraising events and special projects	138,517			138,517
Fund development campaign				
Governmental contracted services	15,350			15,350
Grants	30,950			30,950
Donated services, materials, and facility	34,207			34,207
Interest and dividends	3,528			3,528
Distribution of earnings from community foundation	5,036			5,036
Change in value of beneficial interest in assets held by community foundation (net of \$1,526 of investment expenses)	950			950
Appreciation of investments	14,289			14,289
Resale items, net of related cost of \$5,617	3,337			3,337
Other	6,042			6,042
Net assets released from restrictions	36,232	(36,232)		
TOTAL SUPPORT AND REVENUE	674,051	10,422	1,440	685,913
EXPENSES				
Program services	473,659			473,659
Supporting services:				
Management and general	54,613			54,613
Fundraising	32,977			32,977
TOTAL SUPPORTING SERVICES	87,590	0	0	87,590
TOTAL EXPENSES	561,249	0	0	561,249
CHANGE IN NET ASSETS	112,802	10,422	1,440	124,664
Net assets at beginning of year	346,678	24,449	292,752	663,879
NET ASSETS AT END OF YEAR	\$ 459,480	\$ 34,871	\$ 294,192	\$ 788,543

See notes to the financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended May 31, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Shelter revenue	\$ 82,950			\$ 82,950
Direct public support	169,458	\$ 36,203	\$ 485	206,146
Bequests	15,975			15,975
Revenues from fundraising events and special projects	110,420			110,420
Governmental contracted services	13,333			13,333
Grants	3,050			3,050
Donated services, materials, and facility	28,371			28,371
Interest and dividends	3,755			3,755
Distribution of earnings from community foundation	3,978			3,978
Change in value of beneficial interest in assets held by community foundation (net of \$906 of investment expenses)	7,477			7,477
Appreciation of investments	16,275			16,275
Resale items, net of related cost of \$6,392	3,796			3,796
Other	9,376			9,376
Net assets released from restrictions	38,276	(38,276)		
TOTAL SUPPORT AND REVENUE	506,490	(2,073)	485	504,902
EXPENSES				
Program services	389,113			389,113
Supporting services:				
Management and general	48,460			48,460
Fundraising	28,888			28,888
TOTAL SUPPORTING SERVICES	77,348	0	0	77,348
TOTAL EXPENSES	466,461	0	0	466,461
CHANGE IN NET ASSETS	40,029	(2,073)	485	38,441
Net assets at beginning of year	306,649	26,522	292,267	625,438
NET ASSETS AT END OF YEAR	\$ 346,678	\$ 24,449	\$ 292,752	\$ 663,879

See notes to the financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended May 31, 2014			
	Program Services	Management and General	Fundraising	Total Expenses
Payroll expenses	\$ 206,193	\$ 26,560		\$ 232,753
Veterinary and medical supplies	170,678			170,678
Food for animals	5,929			5,929
Animal equipment	4,371			4,371
Utilities	9,776	515		10,291
Insurance	2,978	165	\$ 165	3,308
Custodial supplies/service	8,682			8,682
Office supplies	5,603	311	311	6,225
Repairs and maintenance	6,219			6,219
Travel/Vehicle expenses	4,602			4,602
Publication expenses	14,175			14,175
Community awareness	6,815			6,815
Conferences	504			504
Donated materials	22,610			22,610
Professional fees, including donated services		19,584		19,584
Fundraising events and projects			32,272	32,272
Dog license expense	270			270
Depreciation	2,649	883		3,532
Bad debt expense		1,250		1,250
Volunteer program		1,484		1,484
Bank fees	1,605	459	229	2,293
Miscellaneous		3,402		3,402
TOTAL FUNCTIONAL EXPENSES	\$ 473,659	\$ 54,613	\$ 32,977	\$ 561,249

See notes to the financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended May 31, 2013			
	Program Services	Management and General	Fundraising	Total Expenses
Payroll expenses	\$ 158,623	\$ 25,400		\$ 184,023
Veterinary and medical supplies	156,121			156,121
Food for animals	3,635			3,635
Animal equipment	3,286			3,286
Utilities	7,530	397		7,927
Insurance	2,851	158	\$ 158	3,167
Custodial supplies/service	8,311			8,311
Office supplies	3,016	168	168	3,352
Repairs and maintenance	3,313			3,313
Travel/Vehicle expenses	2,713			2,713
Publication expenses	14,012			14,012
Community awareness	1,807			1,807
Conferences	753			753
Donated materials	16,871			16,871
Professional fees, including donated services		16,154		16,154
Fundraising events and projects			23,482	23,482
Dog license expense	224			224
Depreciation	4,595	1,532		6,127
Bank fees	1,452	415	208	2,075
New shelter			4,872	4,872
Miscellaneous		4,236		4,236
TOTAL FUNCTIONAL EXPENSES	\$ 389,113	\$ 48,460	\$ 28,888	\$ 466,461

See notes to the financial statements.

STATEMENTS OF CASH FLOWS

UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended May 31	
	2014	2013
CASH FLOW PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ 124,664	\$ 38,441
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,532	6,127
Appreciation in fair value of investments	(14,289)	(16,275)
Change in beneficial interest in assets held by community foundation	(950)	(7,477)
(Increase) Decrease in:		
Accounts receivable	1,264	(347)
Pledges receivable	1,250	
Bequest receivable	15,000	(15,000)
Increase (Decrease) in:		
Accounts payable	(3,434)	770
Other current liabilities	6,111	1,034
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>133,148</u>	<u>7,273</u>
INVESTING ACTIVITIES		
Purchase of fixed assets		(11,586)
Purchases of securities	(50,890)	(48,000)
Sales of securities	55,838	50,163
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>4,948</u>	<u>(9,423)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	138,096	(2,150)
Cash and cash equivalents at beginning of year	<u>341,494</u>	<u>343,644</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 479,590</u>	<u>\$ 341,494</u>

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

UPPER PENINSULA ANIMAL WELFARE SHELTER

May 31, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Upper Peninsula Animal Welfare Shelter (Shelter) is a non-profit organization whose purpose is to ensure the safety and protection of all animals. Services provided by the Shelter include care and shelter of stray animals; adoption service; neglect/cruelty referrals; lost and found service; humane education; and community awareness campaigns. The Shelter'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.

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 Shelter capitalizes all fixed assets valued greater than \$1,000.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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 Shelter 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 \$11,600 and \$11,000 for the years ended May 31, 2014 and 2013, 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 Shelter and consist mainly of items used in shelter operations, such as food, supplies, and similar items. The Shelter recognized \$22,607 and \$17,371 of donated materials for the years ended May 31, 2014 and 2013, respectively.

Use of Estimates

Preparation of the Shelter'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, 2013, have been reclassified to conform to the current year's presentation.

Subsequent Events

Subsequent events were evaluated through December 17, 2014, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE B--INCOME TAX STATUS

The Shelter, 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 Shelter is exempt from federal unemployment taxes under the same section of the Internal Revenue Code.

The Shelter files Form 990 with the Internal Revenue Service. The Shelter believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Shelter's financial condition, results of operations, or cash flows. The Shelter is generally no longer subject to examination by the Internal Revenue Service for tax years ending on or before May 31, 2010.

NOTE C--TEMPORARILY RESTRICTED NET ASSETS

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

	May 31	
	2014	2013
Capital projects:		
New feline facility	\$ 3,449	\$ 3,449
Building improvements	8,050	
Horse protection and education	21,124	21,000
Community spay and neuter	2,248	
	<u>34,871</u>	<u>24,449</u>
TOTAL	<u>\$ 34,871</u>	<u>\$ 24,449</u>

NOTE D--PERMANENTLY RESTRICTED NET ASSETS

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

	May 31	
	2014	2013
Land	\$ 9,800	\$ 9,800
Beneficial interest in community foundation	100,000	100,000
Endowment fund	184,392	182,952
	<u>294,192</u>	<u>292,752</u>
TOTAL	<u>\$ 294,192</u>	<u>\$ 292,752</u>

The parcel of land on which the Shelter facility is located was transferred to the Shelter 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

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE D--PERMANENTLY RESTRICTED NET ASSETS--Continued

In 2004, the Shelter contributed assets to the Marquette Community Foundation (Foundation) to establish the Marquette County Humane Society Agency Fund (Fund). The Shelter named itself as the beneficiary of the expendable earnings, which are to be distributed at least annually. The Shelter 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 Shelter or to an organization or purpose recommended by the Shelter. In accordance with FASB ASC 958-20, *Not-for-Profit Entities - Financially Interrelated Entities*, these amounts are reported on the Shelter'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.

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 Shelter are conducted in Marquette County, Michigan; therefore, the Shelter is affected by regional economic conditions.

NOTE F--COMMITMENTS

The Shelter 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 Shelter issues monthly invoices for services rendered.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE G--INVESTMENTS

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

	May 31, 2014		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 1,156	\$ 1,156	
Mutual funds	155,995	173,645	\$ 17,650
Common stocks	11,354	11,918	564
Other	18,484	25,570	7,086
TOTAL AT END OF YEAR	<u>\$ 186,989</u>	<u>\$ 212,289</u>	<u>\$ 25,300</u>

	May 31, 2013		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 3,860	\$ 3,860	
Mutual funds	141,325	153,647	\$ 12,322
Corporate bonds	14,897	15,534	637
Common stocks	25,436	14,085	(11,351)
Other	9,693	15,822	6,129
TOTAL AT END OF YEAR	<u>\$ 195,211</u>	<u>\$ 202,948</u>	<u>\$ 7,737</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE G--INVESTMENTS--Continued

The following table presents information about the Shelter's investments measured at fair value on a recurring basis at May 31 and the valuation techniques used by the Shelter to determine those fair values. The Shelter uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. 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: Unadjusted quoted prices in active markets for identical assets that are accessible at the measurement date;

Level 2: Quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; or inputs that are observable, either directly or indirectly;

Level 3: Inputs are unobservable, that is, the inputs are supported by little or no market activity.

	Fair Value	Level 1	Level 2	Level 3
<u>May 31, 2014:</u>				
Short-term investments	\$ 1,156	\$ 1,156		
Mutual funds	173,645	173,645		
Common stocks	11,918	11,918		
Other	25,570	25,570		
TOTAL INVESTMENT SECURITIES	<u>\$ 212,289</u>	<u>\$ 212,289</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>May 31, 2013:</u>				
Short-term investments	\$ 3,860	\$ 3,860		
Mutual funds	153,647	153,647		
Corporate bonds	15,534	15,534		
Common stocks	14,085	11,658	\$ 2,427	
Other	15,822	15,822		
TOTAL INVESTMENT SECURITIES	<u>\$ 202,948</u>	<u>\$ 200,521</u>	<u>\$ 2,427</u>	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE H--ENDOWMENT FUND

The Shelter 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 to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UPMIFA. The Shelter'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 composition of the endowment fund's net assets is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>May 31, 2014:</u>			
Donor designated endowment funds	<u>\$ 24,349</u>	<u>\$ 184,392</u>	<u>\$ 208,741</u>
<u>May 31, 2013:</u>			
Donor designated endowment funds	<u>\$ 14,361</u>	<u>\$ 182,952</u>	<u>\$ 197,313</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE H--ENDOWMENT FUND--Continued

The following represents the changes in endowment fund net assets for the years ending May 31, 2014 and 2013:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund net assets (deficit) at June 1, 2012	\$ (2,635)	\$ 182,467	\$ 179,832
Investment return:			
Investment income	2,402		2,402
Realized losses	(7,790)		(7,790)
Unrealized appreciation	27,384		27,384
Total investment return	<u>21,996</u>		<u>21,996</u>
Contributions		485	485
Appropriation of endowment assets for expenditure	<u>(5,000)</u>		<u>(5,000)</u>
Endowment fund net assets at May 31, 2013	<u>\$ 14,361</u>	<u>\$ 182,952</u>	<u>\$ 197,313</u>
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund net assets (deficit) at June 1, 2013	\$ 14,361	\$ 182,952	\$ 197,313
Investment return:			
Investment income	2,333		2,333
Realized gains	7,917		7,917
Unrealized appreciation	4,738		4,738
Total investment return	<u>14,988</u>		<u>14,988</u>
Contributions		1,440	1,440
Appropriation of endowment assets for expenditure	<u>(5,000)</u>		<u>(5,000)</u>
Endowment fund net assets at May 31, 2014	<u>\$ 24,349</u>	<u>\$ 184,392</u>	<u>\$ 208,741</u>