



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
McPaws, Inc.  
McCall, Idaho

We have audited the accompanying financial statements of McPaws, Inc. (an Idaho nonprofit corporation), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 audit. We conducted our audit 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 that 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 McPaws, Inc. as of December 31, 2013, 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.

*Travis Jeffries, P.A.*

Boise, Idaho  
March 25, 2014

**MCPAWS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2013 AND 2012**

**ASSETS**

	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 29,245	\$ 77,819
Inventory	2,117	3,141
Other assets	-	1,500
	<hr/>	<hr/>
Total Current Assets	31,362	82,460
<b>RESERVED FUNDS (See Note A, page 9)</b>		
Reserved cash	134,979	371,640
Reserved investments	60,239	-
	<hr/>	<hr/>
Total Reserved Funds	195,218	371,640
<b>CONTRIBUTION RECEIVABLE</b>	49,812	-
<b>PROPERTY AND EQUIPMENT, net of accumulated depreciation</b>	<hr/>	<hr/>
	747,459	407,012
	<hr/>	<hr/>
Total Assets	<u>\$ 1,023,851</u>	<u>\$ 861,112</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,522	\$ 36,024
Accrued liabilities	8,547	18,437
Current portion of long term debt	3,092	-
	<hr/>	<hr/>
Total Current Liabilities	21,161	54,461
<b>LONG TERM DEBT - net of current portion</b>	186,908	-
<b>NET ASSETS</b>		
Unrestricted Net Assets	568,752	456,041
Unrestricted Net Assets - Board Designated	187,436	328,618
Temporarily Restricted Net Assets	59,594	21,992
	<hr/>	<hr/>
Total Net Assets	815,782	806,651
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 1,023,851</u>	<u>\$ 861,112</u>

See notes to financial statements.

**MCPAWS, INC.**

**STATEMENTS OF ACTIVITIES**

**For the Years Ended December 31, 2013 and 2012**

	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>UNRESTRICTED NET ASSETS</b>		
Revenues and Support		
Retail sales	\$ 12,524	\$ 15,901
Thrift store sales	257,176	219,462
Contributions	95,781	79,929
Shelter fees	15,645	18,052
Government revenues	73,812	70,333
Special events	36,824	82,758
Grants	6,000	13,000
Other income	8,538	6,839
Interest	3,880	6,801
Investment income	153	-
	<u>510,333</u>	<u>513,075</u>
Net assets released from restriction	14,210	10,950
	<u>524,543</u>	<u>524,025</u>
<b>Total Revenues and Support</b>	<b>524,543</b>	<b>524,025</b>
Operating Expenses		
Retail cost of goods sold	11,072	15,419
Thrift store cost of goods sold	3,796	2,757
Program expenses		
Shelter expenses	279,256	293,368
Thrift store expenses	154,483	140,147
Special program expenses	18,107	17,200
Fundraising	6,092	20,305
General and administrative	80,208	43,585
	<u>553,014</u>	<u>532,781</u>
<b>Total Operating Expenses</b>	<b>553,014</b>	<b>532,781</b>
Decrease in Unrestricted Net Assets	(28,471)	(8,756)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Grants	2,000	2,000
Contributions	49,812	-
Net assets released from restriction	<u>(14,210)</u>	<u>(10,950)</u>
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	<b>37,602</b>	<b>(8,950)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>9,131</b>	<b>(17,706)</b>
<b>NET ASSETS, Beginning of Year</b>	<u>806,651</u>	<u>824,357</u>
<b>NET ASSETS, End of Year</b>	<u><u>\$ 815,782</u></u>	<u><u>\$ 806,651</u></u>

See notes to financial statements.

**MCPAWS, INC.**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2013 and 2012**

	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (Decrease) in net assets	\$ 9,131	\$ (17,706)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	15,036	12,722
Changes in operating assets and liabilities:		
Other assets	1,500	276
Contributions receivable	(49,812)	-
Inventory	1,024	456
Accounts payable	(26,502)	30,771
Accrued liabilities	(9,890)	519
	<u>(59,513)</u>	<u>27,038</u>
Net Cash Provided by (Used in) Operating Activities	(59,513)	27,038
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale (purchase) of reserved funds - cash	236,661	(460)
Purchase of reserved funds - investments	(60,239)	-
Purchase of property and equipment	(165,483)	(47,656)
	<u>10,939</u>	<u>(48,116)</u>
Net Cash Provided by (Used in) Investing Activities	10,939	(48,116)
Net Decrease in Cash and Cash Equivalents	(48,574)	(21,078)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>77,819</u>	<u>98,897</u>
CASH AND CASH EQUIVALENTS, End of Year	<u><u>\$ 29,245</u></u>	<u><u>\$ 77,819</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for interest	\$ 843	
Noncash investing and financing activities:		
Seller financed note payable		
Buildings and land	\$ 190,000	
Note payable	\$ (190,000)	

See notes to financial statements.

**MCPAWS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended December 31, 2013**

	<b>Management and General</b>	<b>Shelter</b>	<b>Thrift Store</b>	<b>Special Programs</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 68,543	\$ 154,692	\$ 97,278	\$ -	\$ -	\$ 320,513
Payroll taxes	5,709	32,353	10,035	-	-	48,097
Advertising and promotion	-	1,660	1,637	3,970	-	7,267
Events	-	-	-	-	5,341	5,341
Grant expenses	-	-	-	1,054	-	1,054
Dues and subscriptions	-	459	-	-	-	459
Insurance	-	5,310	-	-	-	5,310
Interest expense	-	-	843	-	-	843
Repairs and maintenance	-	3,748	2,362	-	-	6,110
Office expense	-	6,876	25,100	448	-	32,424
Cash over/short	-	-	-	-	-	-
Outreach and education	370	1,310	-	660	-	2,340
Supplies	-	17,022	3,964	3,962	751	25,699
Professional services	-	11,061	2,175	-	-	13,236
Property taxes	-	-	155	-	-	155
Contracted services	-	19,488	2,908	8,013	-	30,409
Travel	1,615	-	-	-	-	1,615
Utilities	-	14,414	6,228	-	-	20,642
Taxes	-	1,596	-	-	-	1,596
Total Expenses Before Depreciation	76,237	269,989	152,685	18,107	6,092	523,110
Depreciation	3,971	9,267	1,798	-	-	15,036
Total Expenses	<u>\$ 80,208</u>	<u>\$ 279,256</u>	<u>\$ 154,483</u>	<u>\$ 18,107</u>	<u>\$ 6,092</u>	<u>\$ 538,146</u>

See notes to financial statements.

# **MCPAWS, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2013 AND 2012**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

#### *Nature of Activities*

McPaws, Inc. is a non-profit organization formed in 1998 to assist the City of McCall with the operation and maintenance of the McCall City Dog Pound. McPaws, Inc. has grown from a small grass-roots, all-volunteer pound assistance group, to a regional animal shelter for dogs and cats. McPaws, Inc. is committed to maintaining a high standard of care and pet adoption processes at the shelter, and to promoting responsible pet ownership. McPaws, Inc. is operating in McCall, Idaho, and is supported primarily by donations, grants, local option tax allocations and adoption fees. In 2010 McPaws, Inc. opened a thrift store in McCall, Idaho where various donated items are received and sold. Proceeds from thrift store sales are used to provide financial support to animals at the McPaws, Inc. animal shelter. McPaws, Inc. thrift store revenues of \$257,176 and \$219,462 were approximately 46% and 43% of McPaws, Inc.'s total revenue and support for the years ended December 31, 2013 and 2012.

#### *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

#### *Financial Statement Presentation*

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (FASB ASC) 958. In accordance with the standard, McPaws, 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.

#### *Use of Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

For the purpose of the statements of cash flows, McPaws, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Federal Depositary Insurance Commission (FDIC) covered deposit balances up to \$250,000 for interest-bearing accounts and offered unlimited coverage for noninterest-bearing accounts for 2013 and 2012. Cash balances in financial institutions did not exceed the FDIC insurance level as of December 31, 2013 and 2012.

#### *Cash - Reserved Funds*

Reserved Funds are made up of major donations received by McPaws, Inc. The donations are not restricted by the donor; however, the Board of Directors has decided to reserve the funds for property improvements, acquisitions and future operating needs.

# **MCPAWS, INC.**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2013 AND 2012**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

#### *Inventory*

Inventory is stated at the lower of cost or market, including inventory that has been purchased for sale and items donated that have a readily determinable market value. Cost is determined on a specific identification basis using the price paid to obtain the inventory from various suppliers. Inventory is kept track of in a perpetual inventory system. The vast majority of thrift store inventory is comprised of donated merchandise without a readily determinable market value until sold.

#### *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 are substantially met and the promises become unconditional. For the year ended December 31, 2013 McPaws, Inc. recieved an unconditional promise to give in the future of \$49,812, and no conditional promises. No unconditional promises nor conditional promises to give were recieved for the year ended December 31, 2012.

#### *Property and Equipment*

Property and equipment is stated at cost, or if donated, is recorded at the estimated fair value at the date of donation. Maintenance and repairs that do not improve or extend the life of assets are currently expensed. McPaws, Inc.'s capitalization policy is \$1,000 for assets deemed to have a useful life of one year or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to thirty years for furniture, equipment and buildings. Depreciation expenses for December 31, 2013 and 2012 were \$15,036 and \$12,722.

#### *Contributions*

McPaws, Inc. follows the recommendations of the FASB ASC 958 for accounting for contributions received and contributions made.

In accordance with the standard, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities. For the years ended December 31, 2013 and 2012 McPaws, Inc. received no permanently restricted contributions.

#### *Noncash contributions*

Noncash contributions with a readily determinable market value or which are intended for internal use by McPaws, Inc. are recorded as received based upon their market value at the date of donation. Noncash contributions without a readily determinable market value or which are not intended for internal use by McPaws, Inc. are not recorded as revenue until a reliable estimate of fair value is determined or they are converted to cash.

# MCPAWS, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013 AND 2012

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

#### *Contributed Services*

Contributed services are recognized as contributions in accordance with FASB ASC 958 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by McPaws, Inc. During the years ended December 31, 2013 and 2012, many individuals volunteered their time in support of McPaws, Inc.'s programs. In-kind donations of legal services of \$1,979 are included in contributions for year ended December 31, 2013. No individual's time met the above criteria for year ended December 31, 2012.

#### *Advertising and Promotion*

McPaws, Inc. uses advertising to promote its programs among the community it serves. The costs of advertising are expensed as incurred. During the years ended December 31, 2013 and 2012, advertising costs totaled \$7,267 and \$9,521.

#### *Income Taxes*

McPaws, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes and is not a private foundation. McPaws, Inc. files income tax returns in the U.S. federal jurisdiction, and is no longer subject to U.S. federal income tax examinations by the taxing authorities for the years before 2010.

#### *Accounting for Uncertainty in Income Taxes*

In accordance with FASB ASC 740, McPaws, Inc. has evaluated its operations as of December 31, 2013 as compared to its original application for tax-exempt not-for-profit status. The evaluation also considered the possibility of transactions that may be subject to income tax on unrelated business income. Tax positions considered, but not limited to included: a) McPaws, Inc.'s characterization of its activities as related or unrelated to its exempt purpose, and b) McPaws, Inc.'s allocation of revenue and expenses between activities that relate to its exempt purpose and those that could be considered unrelated business income. Upon the evaluation, McPaws, Inc. does not believe it has any business activities in place that would cause its tax-exempt not-for-profit status to not be sustained upon audit.

### NOTE B - INVESTMENTS

The fair value of McPaws, Inc.'s investments at December 31, 2013 consisted of the following:

Money market funds	<u>\$ 60,239</u>
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Investment income (loss) on McPaws, Inc.'s investments at December 31, 2013 consisted of the following:

Dividends	\$ 787
Realized loss	(8)
Unrealized loss	<u>(626)</u>
	<u>\$ 153</u>

# **MCPAWS, INC.**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2013 AND 2012**

### **NOTE C - FAIR VALUE MEASUREMENTS**

McPaws, Inc. follows FASB ASC 820, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes 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 under the standard are described below:

- \* Level 1 - quoted prices in active markets for identical investments
- \* Level 2 - other significant observable inputs (including quoted prices for similar investments)
- \* Level 3 - significant unobservable inputs (including the Organization's own assumptions to determine the fair value of investments)

The asset or liability 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.

The fair value of all investment assets were determined using level 1 inputs for the year ending December 31, 2013.

### **NOTE D - PROPERTY AND EQUIPMENT**

Property and equipment at December 31 consisted of the following:

	<u>2013</u>	<u>2012</u>
Furniture and office equipment	\$ 104,218	\$ 96,990
Building	291,100	100,000
Improvements	229,939	222,724
Land	274,940	125,000
Less accumulated depreciation	<u>(152,738)</u>	<u>(137,702)</u>
	<u>\$ 747,459</u>	<u>\$ 407,012</u>

### **NOTE E - CONTRIBUTION RECEIVABLE**

In 2013 McPaws, Inc. was notified that they are a beneficiary of an estate. McPaws, Inc. has received \$10,000 from the estate and a promissory note whereby the estate will contribute an additional \$49,812, on or before the earlier of the date November 20, 2017 or the date on which the estate sells real property it owns in Valley County, Idaho. No interest will accrue on the note unless it is not paid by November 20, 2017, upon which, interest will accrue at a rate of 12% per annum until paid.

# MCPAWS, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013 AND 2012

### NOTE F - OPERATING LEASE

McPaws, Inc. entered into an operating lease for retail space located in McCall, Idaho to operate the McPaws, Inc. thrift store. The lease was to expire in 2017, however, the lease commitment was canceled in December 2013 when McPaws, Inc. purchased the building from its landlord. Lease expenses for the years ended December 31, 2013 and 2012 were \$19,019 and \$19,000, respectively.

### NOTE G - NOTE PAYABLE

In December 2013 McPaws, Inc. obtained a loan for \$190,000 to purchase the building in which the thrift store operates. The note is payable to the former building owner, and bears an interest rate of 6% per annum. Payments for the loan are to be amortized over a 25 year period, with a final balloon payment due December 10, 2023. Payments of \$1,224 are due monthly on or before the 5th day of the month.

Future scheduled maturities of long-term debt are as follows:

Years ending December 31:

2014	\$ 3,092
2015	3,573
2016	3,793
2017	4,027
2018	4,275
Thereafter	<u>171,240</u>
	<u>\$ 190,000</u>

### NOTE H - DESIGNATION OF UNRESTRICTED NET ASSETS

It is the policy of the Board of Directors of McPaws, Inc. to review its plans for property improvements, acquisitions and future operating needs from time to time, and to designate appropriate sums of unrestricted net assets to assure adequate financing of such property improvements, acquisitions and future operating needs. Board designated unrestricted net assets at December 31, 2013 and 2012 totaled \$187,436 and \$328,618, respectively.

### NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of contributions McPaws, Inc. received subject to donor-imposed restrictions and time restrictions. Temporarily restricted net assets totaled \$59,594 and \$21,992 at December 31, 2013 and 2012, respectively. Temporarily restricted net assets are to be used as follows for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Animal comfort fund	\$ 7,782	\$ 13,045
Medical equipment	2,000	-
General operations - restricted by time	49,812	-
Corral fencing	-	2,000
Spay and neuter program	-	6,947
Total	<u>\$ 59,594</u>	<u>\$ 21,992</u>