

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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 nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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.

Board of Directors
Upper Peninsula Animal Welfare Shelter

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 December 31, 2017 and 2016, 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.

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

May 21, 2018

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

	December 31	
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,173,518	\$ 2,127,872
Certificates of deposit	1,000,499	
Accounts receivable	4,998	4,638
Bequest receivable		3,000
Pledges receivable, current portion	191,650	57,700
TOTAL CURRENT ASSETS	<u>2,370,665</u>	<u>2,193,210</u>
OTHER ASSETS		
Pledges receivable, non-current, net	48,465	63,626
Investments	228,183	208,220
Beneficial interest in assets held by the Marquette Community Foundation	106,557	95,980
Beneficial interest in trust	655,599	592,670
	<u>1,038,804</u>	<u>960,496</u>
PROPERTY, PLANT, AND EQUIPMENT		
Land	30,387	30,387
Buildings and improvements	188,544	188,544
Vehicles	21,643	21,643
Office and kennel furniture and equipment	20,683	20,683
Construction in progress	814,866	
	<u>1,076,123</u>	<u>261,257</u>
Less accumulated depreciation	213,807	209,397
PROPERTY, PLANT, AND EQUIPMENT, NET	<u>862,316</u>	<u>51,860</u>
TOTAL ASSETS	<u>\$ 4,271,785</u>	<u>\$ 3,205,566</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 399,705	\$ 27,194
Accrued payroll and payroll taxes	9,429	9,692
Accrued benefits	4,805	6,463
TOTAL CURRENT LIABILITIES	<u>413,939</u>	<u>43,349</u>
NET ASSETS		
Unrestricted:		
Designated	1,247,183	1,147,183
Undesignated	1,085,758	304,363
TOTAL UNRESTRICTED NET ASSETS	<u>2,332,941</u>	<u>1,451,546</u>
Temporarily restricted	1,230,388	1,416,154
Permanently restricted	294,517	294,517
TOTAL NET ASSETS	<u>3,857,846</u>	<u>3,162,217</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,271,785</u>	<u>\$ 3,205,566</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2017

	Year Ended December 31, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Shelter revenue	\$ 97,704			\$ 97,704
Direct public support	250,078	\$ 566,517		816,595
Bequests	5,404			5,404
Revenues from fundraising events and special projects	165,170			165,170
Governmental contracted services	10,829			10,829
Grants	6,355			6,355
Donated services, materials, and facility	46,365			46,365
Interest and dividends	9,078			9,078
Distribution of earnings from Marquette Community Foundation - Reider Fund	5,250			5,250
Change in value of beneficial interest in assets held by Marquette Community Foundation	13,631			13,631
Change in beneficial interest in Dixon trust		72,342		72,342
Appreciation of investments - endowment fund	22,543			22,543
Resale items, net of related cost of \$10,847	10,169			10,169
Other	2,325			2,325
Net assets released from restrictions	824,625	(824,625)		0
TOTAL SUPPORT AND REVENUE	1,469,526	(185,766)	\$ 0	1,283,760
EXPENSES				
Program services	421,252			421,252
Supporting services:				
Management and general	64,869			64,869
Fundraising	102,010			102,010
TOTAL SUPPORTING SERVICES	166,879	0	0	166,879
TOTAL EXPENSES	588,131	0	0	588,131
CHANGE IN NET ASSETS	881,395	(185,766)	0	695,629
Net assets at beginning of year	1,451,546	1,416,154	294,517	3,162,217
NET ASSETS AT END OF YEAR	\$2,332,941	\$1,230,388	\$ 294,517	\$3,857,846

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Shelter revenue	\$ 94,677			\$ 94,677
Direct public support	182,971	\$ 175,697		358,668
Bequests	359,776	556,764		916,540
Revenues from fundraising events and special projects	167,647			167,647
Governmental contracted services	13,216			13,216
Grants	31,110			31,110
Donated services, materials, and facility	38,142			38,142
Interest and dividends	4,558			4,558
Distribution of earnings from Marquette Community Foundation - Reider Fund	2,165			2,165
Change in value of beneficial interest in assets held by Marquette Community Foundation	5,925			5,925
Change in beneficial interest in Dixon trust		35,906		35,906
Appreciation of investments - endowment fund	8,751			8,751
Resale items, net of related cost of \$8,680	9,646			9,646
Other	3,714			3,714
Net assets released from restrictions	703	(703)		0
TOTAL SUPPORT AND REVENUE	923,001	767,664	\$ 0	1,690,665
EXPENSES				
Program services	463,201			463,201
Supporting services:				
Management and general	60,694			60,694
Fundraising	88,305			88,305
TOTAL SUPPORTING SERVICES	148,999	0	0	148,999
TOTAL EXPENSES	612,200	0	0	612,200
CHANGE IN NET ASSETS	310,801	767,664	0	1,078,465
Net assets at beginning of year	1,140,745	648,490	294,517	2,083,752
NET ASSETS AT END OF YEAR	\$1,451,546	\$1,416,154	\$ 294,517	\$3,162,217

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total Expenses
Payroll expenses	\$ 198,556	\$ 27,200	\$ 50,000	\$ 275,756
Veterinary and medical supplies	124,154			124,154
Food for animals	5,531			5,531
Animal equipment	1,821			1,821
Utilities	8,879	468		9,347
Insurance	4,471	248	248	4,967
Custodial supplies/service	10,272			10,272
Office supplies	3,132	174	174	3,480
Repairs and maintenance	4,457			4,457
Travel/Vehicle expenses	4,235			4,235
Publication expenses	13,602			13,602
Community awareness	7,331			7,331
Conferences	3,032			3,032
Donated materials	25,645			25,645
Professional fees, including donated services		28,655		28,655
Fundraising events and projects			51,194	51,194
Dog license expense	68			68
Depreciation	3,307	1,103		4,410
Volunteer program		948		948
Bank fees	2,759	788	394	3,941
Miscellaneous		5,285		5,285
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 421,252</u>	<u>\$ 64,869</u>	<u>\$ 102,010</u>	<u>\$ 588,131</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2016

	Program Services	Management and General	Fundraising	Total Expenses
Payroll expenses	\$ 242,618	\$ 28,748	\$ 38,846	\$ 310,212
Veterinary and medical supplies	131,775			131,775
Food for animals	8,763			8,763
Animal equipment	2,850			2,850
Utilities	8,375	441		8,816
Insurance	3,189	177	177	3,543
Custodial supplies/service	10,839			10,839
Office supplies	3,134	174	174	3,482
Repairs and maintenance	4,778			4,778
Travel/Vehicle expenses	2,832			2,832
Publication expenses	11,797			11,797
Community awareness	7,051			7,051
Conferences	2,130			2,130
Donated materials	17,342			17,342
Professional fees, including donated services		19,938		19,938
Fundraising events and projects			48,771	48,771
Dog license expense	16			16
Depreciation	3,355	1,119		4,474
Volunteer program		656		656
Merchant fees	2,357	673	337	3,367
Miscellaneous		8,768		8,768
	<u>\$ 463,201</u>	<u>\$ 60,694</u>	<u>\$ 88,305</u>	<u>\$ 612,200</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 463,201</u>	<u>\$ 60,694</u>	<u>\$ 88,305</u>	<u>\$ 612,200</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended December 31	
	2017	2016
	<hr/>	
CASH FLOWS PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ 695,629	\$ 1,078,465
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,410	4,474
Interest income from certificates of deposit	(4,499)	
Amortization of present value discount		(2,000)
Appreciation in fair value of endowment fund investments	(22,543)	(8,751)
Change in beneficial interest in assets held by the Marquette Community Foundation, net of distributions	(10,577)	(2,835)
Donation of beneficial interest in Dixon trust		(556,764)
Change in beneficial interest in Dixon trust, net of distributions	(62,929)	(35,906)
Contributions restricted for long-term purposes	(561,724)	(180,032)
(Increase) Decrease in:		
Accounts receivable	(360)	(2,871)
Bequest receivable	3,000	
Increase (Decrease) in:		
Accounts payable	(15,740)	13,292
Other current liabilities	(1,921)	(4,986)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>22,746</u>	<u>302,086</u>
INVESTING ACTIVITIES		
Purchases of fixed assets	(426,615)	
Purchases of certificates of deposit	(996,000)	
Purchases of securities	(33,685)	(22,912)
Sales of securities	36,265	26,020
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,420,035)</u>	<u>3,108</u>
FINANCING ACTIVITIES--Proceeds from contributions		
restricted for long-term purposes	442,935	265,631
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(954,354)</u>	<u>570,825</u>
Cash and cash equivalents at beginning of year	<u>2,127,872</u>	<u>1,557,047</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,173,518</u>	<u>\$ 2,127,872</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Construction in progress purchases accrued in accounts payable	<u>\$ 388,251</u>	<u>\$ 0</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE A--DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Upper Peninsula Animal Welfare Shelter (Shelter) is a nonprofit 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.

Financial Statement Presentation

The Shelter reports information regarding its financial position and activities according to three classes of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) based on the existence or nature of any donor-imposed restrictions. The Shelter has the following net asset classes:

Unrestricted Net Assets--Unrestricted net assets are those currently available for use in the activities of the Shelter, under direction of the Board of Directors (Board) and those invested in land, buildings, and equipment. Board-designated or appropriated amounts are reported as part of the unrestricted class. All funds not classified as temporarily or permanently restricted are recorded as unrestricted net assets.

Temporarily Restricted Net Assets--Temporarily restricted net assets are those assets accepted by the Shelter subject to a stipulation, such as a specific operating purpose, the acquisition of property and equipment, or a time limitation, which causes the assets to be unavailable for current use until those commitments have been fulfilled or time restrictions have been met.

Permanently Restricted Net Assets--Permanently restricted net assets are those funds that are to be invested in perpetuity in accordance with the donor's stipulation.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts.

Certificates of Deposit

Certificates of deposit include short-term certificates with original maturities of four months or less.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE A--DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Receivables

Revenues earned but not received as of December 31 are recorded as accounts receivable on the balance sheet. In the opinion of management, a provision for doubtful accounts is not necessary because all significant amounts are generally collected within two months of the balance sheet date.

Pledges Receivable

Contributions are recognized when the donor makes an unconditional promise to give. When donor restrictions expire (i.e., when a stipulated time restriction ends or other restrictions are met), temporarily restricted net assets are reclassified to unrestricted net assets as "net assets released from restrictions" in the statement of activities. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Shelter uses the allowance method to estimate uncollectible pledges receivable based on management's analysis of the pledges receivable outstanding.

Investments

Investments are carried at fair value. Realized and unrealized gains and losses are included in the statements of activities.

Land, Buildings, and Equipment

Fixed assets are obtained through purchase and donation. Purchased assets are recorded at cost and 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. 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.

Beneficial Interest in Trust

The Shelter is both the beneficiary of annual income distributions as well as the beneficiary of the remainder distribution of assets held in trust. As a practical expedient, the beneficial interest in trust is carried at fair value based on quoted market prices of the underlying investments. Changes in the fair value of the beneficial interest in trust are reflected in the temporarily restricted class of net assets, due to the time restrictions of the distributions. Distributions from the trust are reflected as reductions in the beneficial interest in trust and reclassified from temporarily restricted to unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE A--DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Donated Services and Materials

Contributed professional services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amount of such donated services recorded and reflected in the accompanying financial statements was \$20,720 and \$10,800 for the years ended December 31, 2017 and 2016, respectively.

Contributions of tangible assets are recognized at fair market value when 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 \$25,645 and \$27,342 of donated materials for the years ended December 31, 2017 and 2016, 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.

Subsequent Events

Subsequent events were evaluated through May 21, 2018, which is the date the financial statements were available to be issued.

NOTE B--INVESTMENTS

Market value and unrealized appreciation on investments are as follows:

	December 31, 2017		
	Cost	Fair Value	Unrealized Appreciation
Short-term investments	\$ 4,883	\$ 4,883	
Mutual funds	154,687	173,119	\$ 18,432
Common stocks	40,937	50,181	9,244
TOTAL INVESTMENTS	<u>\$ 200,507</u>	<u>\$ 228,183</u>	<u>\$ 27,676</u>
	December 31, 2016		
	Cost	Fair Value	Unrealized Appreciation
Short-term investments	\$ 5,477	\$ 5,477	
Mutual funds	160,365	168,063	\$ 7,698
Common stocks	28,132	34,680	6,548
TOTAL INVESTMENTS	<u>\$ 193,974</u>	<u>\$ 208,220</u>	<u>\$ 14,246</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE C--PLEDGES RECEIVABLE

During 2015, the Shelter commenced a capital campaign. The campaign goal was \$3.7 million to be used to finance the construction of a new animal shelter. Pledges receivable are as follows:

	December 31	
	2017	2016
Receivable in less than one year	\$ 191,650	\$ 57,700
Receivable in two to five years	69,370	76,700
Receivable in more than five years	5,050	3,250
Gross receivables	<u>266,070</u>	<u>137,650</u>
Less allowance for uncollectible pledges	(19,955)	(10,324)
Less discount to net present value (discounted at 3%)	<u>(6,000)</u>	<u>(6,000)</u>
 UNCONDITIONAL PLEDGES RECEIVABLE, NET	 <u>\$ 240,115</u>	 <u>\$ 121,326</u>

NOTE D--NET ASSET DESIGNATIONS AND RESTRICTIONS

Net asset designations and restrictions are as follows:

	December 31	
	2017	2016
Unrestricted:		
Designated for construction of new shelter	\$ 1,247,183	\$ 1,147,183
Undesignated	1,085,758	304,363
TOTAL UNRESTRICTED	<u>2,332,941</u>	<u>1,451,546</u>
Temporarily Restricted:		
Beneficial interest in trust	655,599	592,670
New shelter facility	565,711	788,853
Horse protection and education	9,078	34,631
TOTAL TEMPORARILY RESTRICTED	<u>1,230,388</u>	<u>1,416,154</u>
Permanently Restricted:		
Land	9,800	9,800
Beneficial interest in Marquette Community Foundation	100,000	100,000
Endowment fund	184,717	184,717
TOTAL PERMANENTLY RESTRICTED	<u>294,517</u>	<u>294,517</u>
TOTAL NET ASSETS	<u>\$ 3,857,846</u>	<u>\$ 3,162,217</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--NET ASSET DESIGNATIONS AND RESTRICTIONS--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 the Marquette Community Foundation. 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--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. 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.

NOTE F--CONCENTRATION OF CREDIT RISK

The Shelter had cash deposits in excess of federally-insured limits. Uninsured deposits totaled \$921,710 and \$1,882,965 at December 31, 2017 and 2016, respectively. The deposits in excess of federally-insured limits are based on the Shelter's bank balances as of December 31, 2017 and 2016.

NOTE G--BENEFICIAL INTEREST IN TRUST

During the year ended December 31, 2016, the Shelter was notified that it was named as the beneficiary of the Jack & Patricia Dixon Irrevocable Trust FBO UPAWS (Trust). The Trust is managed by a financial institution.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE G--BENEFICIAL INTEREST IN TRUST--Continued

The Shelter has unconditional rights to income distributions from the Trust. Income is to be distributed at least annually for a 10-year term. At the end of the 10-year term, the Shelter will be the unconditional beneficiary of the remaining Trust assets plus any undistributed income.

Neither the annual income distributions nor the final distribution are restricted as to use. During 2016, the Shelter recorded bequest revenue of \$556,764, representing the estimated fair value of the Trust assets at the date of the grantor's death. The Shelter periodically adjusts the amount recorded as the beneficial interest to the fair value of the Trust assets as reported by the financial institution. The bequest revenue and the changes in the fair value of the beneficial interest in the Trust assets are recorded in the statement of activities in the temporarily restricted net asset class, due to the time restriction. The fair value of the Trust assets totaled \$655,599 and \$592,670 as of December 31, 2017 and 2016, respectively.

NOTE H--FAIR VALUE MEASUREMENTS

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to the 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.

The following is a description of the valuations methodologies used for instruments measured at fair value:

Investments: The fair value of short-term investments, mutual funds, and common stocks and exchange traded funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally-developed models that use unobservable inputs due to the limited market activity of the instrument.

Beneficial interests: The fair value of beneficial interests is based on quoted market prices of the underlying investments.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE H--FAIR VALUE MEASUREMENTS--Continued

The following table presents information about the Shelter's investments and beneficial interests measured at fair value on a recurring basis at December 31, 2017.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 4,883	\$ 4,883		
Mutual funds	173,119	173,119		
Common stocks	50,181	50,181		
Total Investment Securities	<u>228,183</u>	<u>228,183</u>	\$ 0	\$ 0
Beneficial interests:				
Beneficial interest in assets held by the Marquette Community Foundation				106,557
Beneficial interest in trust			655,599	
Total Beneficial Interests	<u>0</u>	<u>0</u>	<u>655,599</u>	<u>106,557</u>
TOTAL	<u>\$ 228,183</u>	<u>\$ 228,183</u>	<u>\$ 655,599</u>	<u>\$ 106,557</u>

The following table presents information about the Shelter's investments and beneficial interests measured at fair value on a recurring basis at December 31, 2016.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 5,477	\$ 5,477		
Mutual funds	168,063	168,063		
Common stocks	34,680	34,680		
Total Investment Securities	<u>208,220</u>	<u>208,220</u>	\$ 0	\$ 0
Beneficial interests:				
Beneficial interest in assets held by the Marquette Community Foundation				95,980
Beneficial interest in trust			592,670	
Total Beneficial Interests	<u>0</u>	<u>0</u>	<u>592,670</u>	<u>95,980</u>
TOTAL	<u>\$ 208,220</u>	<u>\$ 208,220</u>	<u>\$ 592,670</u>	<u>\$ 95,980</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE H--FAIR VALUE MEASUREMENTS--Continued

The changes in assets, at fair value, for which the Shelter has used Level 3 inputs to determine fair value are as follows:

Balance at January 1, 2017	\$ 95,980
Change in value of beneficial interests	14,864
Administrative fees	(1,233)
Distributions	<u>(3,054)</u>
Balance at December 31, 2017	<u><u>\$ 106,557</u></u>

NOTE I--ENDOWMENT FUND

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) is an update of the Uniform Management of Institutional Funds Act (UMIFA), which dates back to 1972. In September of 2009, UPMIFA was signed into law in the State of Michigan. 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, upon recommendation from the Finance Committee, determines a percentage of earnings to be distributed each year.

The Shelter's endowment fund net assets consist of the following:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2017:</u>			
Donor-restricted endowment funds	<u>\$ 43,466</u>	<u>\$ 184,717</u>	<u>\$ 228,183</u>
<u>December 31, 2016:</u>			
Donor-restricted endowment funds	<u>\$ 23,503</u>	<u>\$ 184,717</u>	<u>\$ 208,220</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE I--ENDOWMENT FUND--Continued

The changes in donor-restricted endowment fund net assets are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund net assets at January 1, 2016	\$ 17,860	\$ 184,717	\$ 202,577
Investment return:			
Investment income	1,892		1,892
Realized gains	3,065		3,065
Unrealized appreciation	5,686		5,686
Total investment return	<u>10,643</u>	<u>0</u>	<u>10,643</u>
Contributions	0	0	0
Appropriation of endowment assets for expenditure	<u>(5,000)</u>	<u>0</u>	<u>(5,000)</u>
Endowment fund net assets at December 31, 2016	\$ 23,503	\$ 184,717	\$ 208,220
Investment return:			
Investment income	2,420		2,420
Realized gains	9,123		9,123
Unrealized appreciation	13,420		13,420
Total investment return	<u>24,963</u>	<u>0</u>	<u>24,963</u>
Contributions	0	0	0
Appropriation of endowment assets for expenditure	<u>(5,000)</u>	<u>0</u>	<u>(5,000)</u>
Endowment fund net assets at December 31, 2017	<u>\$ 43,466</u>	<u>\$ 184,717</u>	<u>\$ 228,183</u>

NOTE J--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.

In 2016, the Shelter entered into a contract with an independent contractor for the construction of a new shelter. The total contract price of this project is \$3,526,830. Construction expenditures under this project, which are reported as construction in progress on the statement of financial position, totaled \$814,866 and \$0 for the years ended December 31, 2017 and 2016, respectively.