

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

December 31, 2015

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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 non-profit corporation), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the nineteen months 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 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 December 31, 2015, and the changes in its net assets and its cash flows for the nineteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Marquette, Michigan

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

August 4, 2016

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Our goal is to help you meet yours!

STATEMENT OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

December 31, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,557,047
Accounts receivable	1,767
Bequest receivable	3,000
Pledges receivable, current portion	139,400
TOTAL CURRENT ASSETS	<u>1,701,214</u>

OTHER ASSETS

Pledges receivable, non-current, net	75,525
Investments	202,577
Beneficial interests in assets held by the Marquette Community Foundation	484,810
	<u>762,912</u>

PROPERTY, PLANT, AND EQUIPMENT

Land	30,387
Buildings and improvements	188,544
Vehicles	21,643
Office and kennel equipment	10,683
	<u>251,257</u>
Less accumulated depreciation	204,923
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>46,334</u>

TOTAL ASSETS \$ 2,510,460

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 13,902
Accrued payroll and payroll taxes	14,836
Accrued benefits	6,305
TOTAL CURRENT LIABILITIES	<u>35,043</u>

NET ASSETS

Unrestricted:	
Designated	837,415
Undesignated	303,330
TOTAL UNRESTRICTED NET ASSETS	<u>1,140,745</u>
Temporarily restricted	648,490
Permanently restricted	686,182
TOTAL NET ASSETS	<u>2,475,417</u>

TOTAL LIABILITIES AND NET ASSETS \$ 2,510,460

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Nineteen Months Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Shelter revenue	\$ 122,120			\$ 122,120
Direct public support	326,046	\$ 620,463	\$ 391,990	1,338,499
Bequests	851,768			851,768
Revenues from fundraising events and special projects	277,868			277,868
Governmental contracted services	23,953			23,953
Grants	20,406			20,406
Donated services, materials, and facility	60,653			60,653
Interest and dividends	5,469			5,469
Distribution of earnings from the Marquette Community Foundation	5,308			5,308
Change in value of beneficial interest in assets held by community foundation (net of \$2,321 of investment expenses)	(7,619)			(7,619)
Depreciation of investments	(7,278)			(7,278)
Resale items, net of related cost of \$8,524	7,630			7,630
Other	5,787			5,787
Net assets released from restrictions	6,844	(6,844)		0
TOTAL SUPPORT AND REVENUE	<u>1,698,955</u>	<u>613,619</u>	<u>391,990</u>	<u>2,704,564</u>
EXPENSES				
Program services	765,062			765,062
Supporting services:				
Management and general	105,942			105,942
Fundraising	146,686			146,686
TOTAL SUPPORTING SERVICES	<u>252,628</u>	<u>0</u>	<u>0</u>	<u>252,628</u>
TOTAL EXPENSES	<u>1,017,690</u>	<u>0</u>	<u>0</u>	<u>1,017,690</u>
CHANGE IN NET ASSETS	<u>681,265</u>	<u>613,619</u>	<u>391,990</u>	<u>1,686,874</u>
Net assets at beginning of period	<u>459,480</u>	<u>34,871</u>	<u>294,192</u>	<u>788,543</u>
NET ASSETS AT END OF PERIOD	<u><u>\$ 1,140,745</u></u>	<u><u>\$ 648,490</u></u>	<u><u>\$ 686,182</u></u>	<u><u>\$ 2,475,417</u></u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Nineteen Months Ended December 31, 2015

	Program Services	Management and General	Fundraising	Total Expenses
Payroll expenses	\$ 380,054	\$ 43,493		\$ 423,547
Veterinary and medical supplies	234,280			234,280
Food for animals	12,611			12,611
Animal equipment	5,402			5,402
Utilities	14,693	774		15,467
Insurance	5,022	279	\$ 279	5,580
Custodial supplies/service	14,908			14,908
Office supplies	6,770	376	376	7,522
Repairs and maintenance	3,202			3,202
Travel/Vehicle expenses	5,058			5,058
Publication expenses	16,728			16,728
Community awareness	9,086			9,086
Conferences	4,433			4,433
Donated materials	43,828			43,828
Professional fees, including donated services		27,933		27,933
Fundraising events and projects			145,542	145,542
Dog license expense	194			194
Depreciation	5,371	1,791		7,162
Bad debt expense		18,075		18,075
Volunteer program		1,220		1,220
Bank fees	3,422	978	489	4,889
Miscellaneous		11,023		11,023
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 765,062</u>	<u>\$ 105,942</u>	<u>\$ 146,686</u>	<u>\$ 1,017,690</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

UPPER PENINSULA ANIMAL WELFARE SHELTER

Nineteen Months Ended December 31, 2015

CASH FLOWS PROVIDED (USED) BY

OPERATING ACTIVITIES

Change in net assets	\$ 1,686,874
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,162
Depreciation in fair value of investments	7,278
Change in beneficial interest in assets held by the Marquette Community Foundation	7,619
Contribution of beneficial interest	(391,665)
Contributions restricted for long-term purposes	(607,571)
(Increase) Decrease in:	
Accounts receivable	(139)
Bequest receivable	(3,000)
Increase (Decrease) in:	
Accounts payable	(6,017)
Other current liabilities	2,423
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>702,964</u>

INVESTING ACTIVITIES

Purchase of fixed assets	(20,587)
Purchases of securities	(6,033)
Sales of securities	8,467
NET CASH USED BY INVESTING ACTIVITIES	<u>(18,153)</u>

FINANCING ACTIVITIES

Proceeds from contributions restricted for long-term purposes	392,646
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,077,457</u>

Cash and cash equivalents at beginning of period 479,590

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 1,557,047

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

UPPER PENINSULA ANIMAL WELFARE SHELTER

December 31, 2015

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.

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

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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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

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 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.

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.

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 \$16,800 for the nineteen months ended December 31, 2015.

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 \$43,853 of donated materials for the nineteen months ended December 31, 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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

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 August 4, 2016, which is the date the financial statements were available to be issued.

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. 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 C--DESIGNATED NET ASSETS

Designated net assets of \$837,415 for the nineteen months ended December 31, 2015, are designated for the construction of a new animal shelter

NOTE D--TEMPORARILY RESTRICTED NET ASSETS

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

	<u>December 31, 2015</u>
New shelter facility	\$ 619,070
Horse protection and education	<u>29,420</u>
TOTAL	<u>\$ 648,490</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE E--PERMANENTLY RESTRICTED NET ASSETS

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

	<u>December 31, 2015</u>
Land	\$ 9,800
Beneficial interests in community foundation	491,665
Endowment fund	<u>184,717</u>
TOTAL	<u>\$ 686,182</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.

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.

In 2015, the Shelter was named a beneficiary to contributed assets to the Foundation, in which the expendable earnings are distributed at least annually. The donor granted variance power to the Foundation, whereby 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. Earnings 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 F--CONCENTRATION OF CREDIT RISK

At December 31, 2015, the Shelter had cash deposits in excess of federally-insured limits. Uninsured deposits totaled \$1,297,954 at December 31, 2015. The deposits in excess of federally-insured limits are based on the Shelter's bank balances as of December 31, 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE G--INVESTMENTS

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

	December 31, 2015		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 9,891	\$ 9,891	
Mutual funds	155,995	160,702	\$ 4,707
Common stocks	9,648	4,819	(4,829)
Other	18,484	27,165	8,681
TOTAL AT END OF PERIOD	<u>\$ 194,018</u>	<u>\$ 202,577</u>	<u>\$ 8,559</u>

The following table presents information about the Shelter's investments measured at fair value on a recurring basis at December 31 and the valuation techniques used by the Shelter to determine those fair values. 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.

	Fair Value	Level 1	Level 2	Level 3
<u>December 31, 2015:</u>				
Short-term investments	\$ 9,891	\$ 9,891		
Mutual funds	160,702	160,702		
Common stocks	4,819	4,819		
Other	27,165	27,165		
TOTAL INVESTMENT SECURITIES	<u>\$ 202,577</u>	<u>\$ 202,577</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE H--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:

	<u>December 31, 2015</u>
Receivable in less than one year	\$ 139,400
Receivable in two to five years	101,600
Gross receivables	<u>241,000</u>
Less allowance for uncollectible pledges	(18,075)
Less discount to net present value (discounted at 3%)	<u>(8,000)</u>
NET UNCONDITIONAL PLEDGES RECEIVABLE	<u>\$ 214,925</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. On September 15, 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 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>December 31, 2015:</u>			
Donor-restricted endowment funds	<u>\$ 17,860</u>	<u>\$ 184,717</u>	<u>\$ 202,577</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE I--ENDOWMENT FUND--Continued

The following represents the changes in endowment fund net assets for the nineteen months ended December 31, 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund net assets at June 1, 2014	\$ 24,349	\$ 184,392	\$ 208,741
Investment return:			
Investment income	5,740		5,740
Realized gains	7,838		7,838
Unrealized appreciation	<u>(15,067)</u>		<u>(15,067)</u>
Total investment return	(1,489)	0	(1,489)
Contributions		325	325
Appropriation of endowment assets for expenditure	<u>(5,000)</u>		<u>(5,000)</u>
Endowment fund net assets at December 31, 2015	<u>\$ 17,860</u>	<u>\$ 184,717</u>	<u>\$ 202,577</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.