

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

Years Ended December 31, 2018 and 2017

TABLE OF CONTENTS

UPPER PENINSULA ANIMAL WELFARE SHELTER

Independent Auditor's Report .....	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	5
Statements of Functional Expenses .....	7
Statements of Cash Flows .....	9
Notes to Financial Statements .....	10

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, 2018 and 2017, 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 audits 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, 2018 and 2017, 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, Tautant, Hill, Nardi & Katona, P.C.*

April 22, 2019

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

	December 31	
	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 497,230	\$ 1,173,518
Certificates of deposit		1,000,499
Accounts receivable	3,953	4,998
Pledges receivable, current portion	61,445	191,650
TOTAL CURRENT ASSETS	<u>562,628</u>	<u>2,370,665</u>
<b>OTHER ASSETS</b>		
Pledges receivable, non-current, net	49,041	48,465
Investments	212,052	228,183
Beneficial interest in assets held by the Marquette Community Foundation	95,125	106,557
Beneficial interest in Dixon Trust	595,707	655,599
TOTAL OTHER ASSETS	<u>951,925</u>	<u>1,038,804</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Land	30,387	30,387
Buildings and improvements	188,544	188,544
Vehicles	21,643	21,643
Office and kennel furniture and equipment	89,112	20,683
Construction in progress	3,516,382	814,866
	<u>3,846,068</u>	<u>1,076,123</u>
Less accumulated depreciation	215,368	213,807
PROPERTY, PLANT, AND EQUIPMENT, NET	<u>3,630,700</u>	<u>862,316</u>
TOTAL ASSETS	<u>\$ 5,145,253</u>	<u>\$ 4,271,785</u>

See notes to financial statements.

	December 31	
	2018	2017
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 698,662	\$ 399,705
Accrued payroll and payroll taxes	11,530	9,429
Accrued benefits	6,563	4,805
Note payable, current portion	25,761	
TOTAL CURRENT LIABILITIES	<u>742,516</u>	<u>413,939</u>
<b>LONG-TERM LIABILITIES</b>		
Note payable	433,051	
Less current portion	(25,761)	
TOTAL LONG-TERM LIABILITIES	<u>407,290</u>	<u>0</u>
TOTAL LIABILITIES	1,149,806	413,939
<b>NET ASSETS</b>		
Without donor restrictions:		
Designated		1,247,183
Undesignated	2,953,035	1,042,292
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,953,035</u>	<u>2,289,475</u>
With donor restrictions	1,042,412	1,568,371
TOTAL NET ASSETS	<u>3,995,447</u>	<u>3,857,846</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,145,253</u>	<u>\$ 4,271,785</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Shelter revenue	\$ 89,672		\$ 89,672
Direct public support	291,316	\$ 184,722	476,038
Revenues from fundraising events and special projects	142,730		142,730
Governmental contracted services	9,407		9,407
Grants	28,890		28,890
Donated services, materials, and facility	73,164		73,164
Interest and dividends	6,455		6,455
Distribution of earnings from Marquette Community Foundation - Reider Fund	5,897		5,897
Change in value of beneficial interest in assets held by Marquette Community Foundation	(8,389)		(8,389)
Change in beneficial interest in Dixon Trust		(24,300)	(24,300)
Investment return, net		(11,131)	(11,131)
Resale items, net of related cost of \$14,473	3,276		3,276
Other	3,729		3,729
Net assets released from restrictions	675,250	(675,250)	0
<b>TOTAL SUPPORT AND REVENUE</b>	<b>1,321,397</b>	<b>(525,959)</b>	<b>795,438</b>
<b>EXPENSES</b>			
Program services	429,437		429,437
Supporting services:			
Management and general	80,153		80,153
Fundraising	148,247		148,247
<b>TOTAL SUPPORTING SERVICES</b>	<b>228,400</b>	<b>0</b>	<b>228,400</b>
<b>TOTAL EXPENSES</b>	<b>657,837</b>	<b>0</b>	<b>657,837</b>
<b>CHANGE IN NET ASSETS</b>	<b>663,560</b>	<b>(525,959)</b>	<b>137,601</b>
Net assets at beginning of year	2,289,475	1,568,371	3,857,846
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 2,953,035</b>	<b>\$ 1,042,412</b>	<b>\$ 3,995,447</b>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
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	6,658		6,658
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
Investment return, net		24,963	24,963
Resale items, net of related cost of \$10,847	10,169		10,169
Other	2,325		2,325
Net assets released from restrictions	829,625	(829,625)	0
TOTAL SUPPORT AND REVENUE	<u>1,449,563</u>	<u>(165,803)</u>	<u>1,283,760</u>
<b>EXPENSES</b>			
Program services	421,252		421,252
Supporting services:			
Management and general	64,869		64,869
Fundraising	102,010		102,010
TOTAL SUPPORTING SERVICES	<u>166,879</u>	<u>0</u>	<u>166,879</u>
TOTAL EXPENSES	<u>588,131</u>	<u>0</u>	<u>588,131</u>
CHANGE IN NET ASSETS	861,432	(165,803)	695,629
Net assets at beginning of year	<u>1,428,043</u>	<u>1,734,174</u>	<u>3,162,217</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,289,475</u>	<u>\$ 1,568,371</u>	<u>\$ 3,857,846</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total Expenses
Payroll expenses	\$ 212,922	\$ 27,200	\$ 50,000	\$ 290,122
Veterinary and medical supplies	121,953			121,953
Food for animals	5,387			5,387
Animal equipment	2,090			2,090
Utilities	9,456	498		9,954
Insurance	3,432	191	191	3,814
Custodial supplies/service	9,656			9,656
Office supplies	3,833	213	213	4,259
Repairs and maintenance	3,547			3,547
Travel/Vehicle expenses	2,487			2,487
Publication expenses	19,263			19,263
Community awareness	9,536			9,536
Conferences	1,898			1,898
Donated materials	19,020			19,020
Professional fees, including donated services		35,407		35,407
Fundraising events and projects			97,328	97,328
Dog license expense	184			184
Depreciation	1,172	390		1,562
Interest expense		6,709		6,709
Volunteer program		1,112		1,112
Merchant fees	3,601	1,029	515	5,145
Miscellaneous		7,404		7,404
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 429,437</u>	<u>\$ 80,153</u>	<u>\$ 148,247</u>	<u>\$ 657,837</u>

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.

## STATEMENTS OF CASH FLOWS

### UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended December 31	
	2018	2017
CASH FLOWS PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ 137,601	\$ 695,629
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,562	4,410
Interest income capitalized to certificates of deposit	(4,883)	(4,499)
(Appreciation) Depreciation in fair value of endowment fund investments	14,585	(22,543)
Change in beneficial interest in assets held by the Marquette Community Foundation, net of distributions	11,432	(10,577)
Change in beneficial interest in Dixon Trust, net of distributions	59,892	(62,929)
Contributions restricted for long-term purposes	(178,512)	(561,724)
(Increase) Decrease in:		
Accounts receivable	1,045	(360)
Bequest receivable		3,000
Increase (Decrease) in:		
Accounts payable	7,190	(15,740)
Other current liabilities	3,859	(1,921)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>53,771</u>	<u>22,746</u>
INVESTING ACTIVITIES		
Purchases of fixed assets	(2,478,179)	(426,615)
Redemption (Purchases) of certificates of deposit	1,005,382	(996,000)
Purchases of investment securities	(7,454)	(33,685)
Sales of investment securities	9,000	36,265
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,471,251)</u>	<u>(1,420,035)</u>
FINANCING ACTIVITIES		
Proceeds from borrowing	433,051	
Proceeds from contributions restricted for long-term purposes	308,141	442,935
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>741,192</u>	<u>442,935</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(676,288)</u>	<u>(954,354)</u>
Cash and cash equivalents at beginning of year	<u>1,173,518</u>	<u>2,127,872</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 497,230</u>	<u>\$ 1,173,518</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Construction in progress purchases accrued in accounts payable	<u>\$ 680,018</u>	<u>\$ 388,251</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 two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Net Assets Without Donor Restriction: Net assets that are not subject to, or are no longer subject to, donor-imposed stipulations. The Board of Directors may designate, from net assets without donor restrictions, funds for specified use.

Net Assets With Donor Restriction: Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

#### 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets with donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions.

## 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 \$25,720 and \$20,720 for the years ended December 31, 2018 and 2017, 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 \$19,020 and \$25,645 of donated materials for the years ended December 31, 2018 and 2017, respectively. In addition, the Shelter received donated advertising from a local newspaper in the amount of \$28,424 and \$0 for the years ended December 31, 2018 and 2017, respectively.

##### Functional Allocation of Expenses

Expenses have been allocated between program services and supporting services (management and general and fundraising). Expenses that can be identified with program or supporting services are charged directly to the program or supporting service benefited. Other expenses which apply to more than one functional category have been allocated on various bases, as determined by management.

##### 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 April 22, 2019, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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

New Accounting Pronouncement

During the year ended December 31, 2018, the Shelter adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Presentation of Financial Statements of Not-for-Profit Entities* (Update). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities.

A key change required by the Update is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets are now reported as net assets with donor restrictions. In addition, the Shelter has added a footnote on its liquidity.

These changes had the following effect on net assets at December 31, 2016:

	As Previously Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 1,451,546	
Temporarily restricted net assets	1,416,154	
Permanently restricted net assets	294,517	
Net assets without donor restrictions		\$ 1,428,043
Net assets with donor restrictions		1,734,174
	<u>                    </u>	<u>                    </u>
TOTAL NET ASSETS	<u>\$ 3,162,217</u>	<u>\$ 3,162,217</u>

In addition, certain reclassifications have been made to the prior year's comparative information to conform to the presentation of the current year's financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE B--LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2018, comprise the following:

Cash and cash equivalents	\$ 497,230
Accounts receivable	3,953
Pledges receivable, current portion	61,445
Investments	212,052
Beneficial interest in assets held by the Marquette Community Foundation	95,125
Beneficial interest in Dixon Trust	<u>595,707</u>
	1,465,512
Less endowment investments	(212,052)
Less beneficial interest in assets held by the Marquette Community Foundation	(95,125)
Less beneficial interest in Dixon Trust	(595,707)
Plus anticipated endowment distributions	5,000
Plus anticipated distribution from Dixon Trust	<u>25,000</u>
	(595,707)
	<u>592,628</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR EXPENDITURES WITHIN ONE YEAR	<u>\$ 592,628</u>

As part of the Shelter's liquidity management plan, the Shelter invests cash in excess of anticipated future obligations in savings accounts and certificates of deposit.

NOTE C--CONCENTRATION OF CREDIT RISK

The Shelter had cash deposits in excess of federally-insured limits. Uninsured deposits totaled \$249,024 and \$921,710 at December 31, 2018 and 2017, respectively. The deposits in excess of federally-insured limits are based on the Shelter's bank balances as of December 31, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE D--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	
	2018	2017
Receivable in less than one year	\$ 61,445	\$ 191,650
Receivable in two to five years	58,355	69,370
Receivable in more than five years	5,050	5,050
Gross receivables	124,850	266,070
Less allowance for uncollectible pledges	(9,364)	(19,955)
Less discount to net present value (discounted at 3%)	(5,000)	(6,000)
<b>UNCONDITIONAL PLEDGES RECEIVABLE, NET</b>	<b>\$ 110,486</b>	<b>\$ 240,115</b>

NOTE E--INVESTMENTS

Market value and unrealized appreciation on investments are as follows:

	December 31, 2018		
	Cost	Fair Value	Unrealized Appreciation
Short-term investments	\$ 7,840	\$ 7,840	
Mutual funds	154,251	159,143	\$ 4,892
Common stocks	40,938	45,069	4,131
<b>TOTAL INVESTMENTS</b>	<b>\$ 203,029</b>	<b>\$ 212,052</b>	<b>\$ 9,023</b>

  

	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
<b>TOTAL INVESTMENTS</b>	<b>\$ 200,507</b>	<b>\$ 228,183</b>	<b>\$ 27,676</b>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE F--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 of Directors, 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>With Donor Restrictions</u>
<u>December 31, 2018:</u>	
Original donor-restricted gift amount	\$ 184,717
Accumulated investment gains	<u>27,335</u>
TOTAL	<u>\$ 212,052</u>
<u>December 31, 2017:</u>	
Donor-restricted endowment funds	\$ 184,717
Accumulated investment gains	<u>43,466</u>
TOTAL	<u>\$ 228,183</u>

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

	<u>With Donor Restrictions</u>
Endowment net assets at January 1, 2017	\$ 208,220
Investment return, net	24,963
Contributions	0
Appropriation of endowment assets for expenditure	<u>(5,000)</u>
Endowment net assets at December 31, 2017	228,183
Investment return, net	(11,131)
Contributions	0
Appropriation of endowment assets for expenditure	<u>(5,000)</u>
Endowment net assets at December 31, 2018	<u>\$ 212,052</u>

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

#### 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.

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. Changes in the fair value of the beneficial interest in the Trust assets are recorded in the statement of activities in the assets with donor restriction net asset class, due to the time restriction. The fair value of the Trust assets totaled \$595,707 and \$655,599 as of December 31, 2018 and 2017, 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 valuation 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, 2018.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 7,840	\$ 7,840		
Mutual funds	159,143	159,143		
Common stocks	45,069	45,069		
Total Investment Securities	<u>212,052</u>	<u>212,052</u>	\$ 0	\$ 0
Beneficial interests:				
Beneficial interest in assets held by the Marquette Community Foundation				95,125
Beneficial interest in Dixon Trust			<u>595,707</u>	
Total Beneficial Interests	<u>0</u>	<u>0</u>	<u>595,707</u>	<u>95,125</u>
TOTAL	<u>\$ 212,052</u>	<u>\$ 212,052</u>	<u>\$ 595,707</u>	<u>\$ 95,125</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, 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 Dixon Trust			<u>655,599</u>	
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>

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, 2018	\$ 106,557
Change in value of beneficial interests	(7,079)
Administrative fees	(1,310)
Distributions	<u>(3,043)</u>
Balance at December 31, 2018	<u><u>\$ 95,125</u></u>

NOTE I--NOTE PAYABLE

Note payable consists of the following as of December 31, 2018:

Commercial real estate mortgage financed through a bank with a maximum draw amount of \$1,104,754. The note requires interest only payments at a rate of 2.95% through June 2019, then principal and interest payments of \$5,332 through an April 2024 maturity. The note is secured by the new shelter building.

\$ 433,051

TOTAL NOTE PAYABLE \$ 433,051

Total interest paid was \$6,709 for the year ended December 31, 2018.

Aggregate maturities of the note payable are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2019	\$ 25,761
2020	52,674
2021	54,249
2022	55,871
2023	57,541
Thereafter	<u>186,955</u>
	<u><u>\$ 433,051</u></u>



## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

#### NOTE K--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 L--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 \$3,516,382 and \$814,866 for the years ended December 31, 2018 and 2017, respectively.