

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Upper Peninsula Animal Welfare Shelter  
Gwinn, 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, 2019 and 2018, 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, 2019 and 2018, 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.*

November 11, 2020

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

	December 31	
	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 543,981	\$ 497,230
Accounts receivable		3,953
Inventory	1,104	
Pledges receivable, current portion	26,570	61,445
TOTAL CURRENT ASSETS	<u>571,655</u>	<u>562,628</u>
<b>OTHER ASSETS</b>		
Pledges receivable, non-current, net	35,607	49,041
Long-term investments	247,533	212,052
Beneficial interest in assets held by the Marquette Community Foundation	101,700	95,125
Beneficial interest in Dixon Trust	652,451	595,707
TOTAL OTHER ASSETS	<u>1,037,291</u>	<u>951,925</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Land	20,587	30,387
Buildings and improvements	3,631,115	188,544
Vehicles	44,792	21,643
Office and kennel furniture and equipment	100,080	89,112
Construction in progress		3,516,382
	<u>3,796,574</u>	<u>3,846,068</u>
Less accumulated depreciation	121,006	215,368
PROPERTY, PLANT, AND EQUIPMENT, NET	<u>3,675,568</u>	<u>3,630,700</u>
TOTAL ASSETS	<u>\$ 5,284,514</u>	<u>\$ 5,145,253</u>

	December 31	
	2019	2018
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 32,217	\$ 698,662
Accrued payroll and payroll taxes	15,549	11,530
Accrued benefits	4,068	6,563
Sales tax payable	933	
Note payable, current portion	32,434	25,761
TOTAL CURRENT LIABILITIES	<u>85,201</u>	<u>742,516</u>
<b>LONG-TERM LIABILITIES</b>		
Note payable	1,084,408	433,051
Less current portion	<u>(32,434)</u>	<u>(25,761)</u>
TOTAL LONG-TERM LIABILITIES	<u>1,051,974</u>	<u>407,290</u>
TOTAL LIABILITIES	<u>1,137,175</u>	<u>1,149,806</u>
<b>NET ASSETS</b>		
Without donor restrictions	3,031,571	2,953,035
With donor restrictions	1,115,768	1,042,412
TOTAL NET ASSETS	<u>4,147,339</u>	<u>3,995,447</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,284,514</u>	<u>\$ 5,145,253</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Gift shop sales:			
Gross sales	\$ 30,080		\$ 30,080
Less: cost of sales	(22,980)		(22,980)
GROSS PROFIT	7,100		7,100
Shelter revenue	105,082		105,082
Direct public support	322,754	\$ 120,610	443,364
Bequests	27,447		27,447
Revenues from fundraising events and special projects	122,251		122,251
Governmental contracted services	38,088		38,088
Grants	11,163		11,163
Donated services, materials, and facility	78,276		78,276
Interest and dividends	592		592
Distribution of earnings from Marquette Community Foundation - Reider Fund	8,010		8,010
Change in value of beneficial interest in assets held by Marquette Community Foundation	9,630		9,630
Change in beneficial interest in Dixon Trust		88,332	88,332
Investment return, net		40,481	40,481
Other	5,049		5,049
Net assets released from restrictions	176,067	(176,067)	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	911,509	73,356	984,865
<b>EXPENSES AND LOSSES</b>			
Program services	590,258		590,258
Supporting services:			
Management and general	143,441		143,441
Fundraising	87,924		87,924
TOTAL SUPPORTING SERVICES	231,365	0	231,365
TOTAL EXPENSES	821,623	0	821,623
Loss on sale of asset	11,350		11,350
TOTAL EXPENSES AND LOSSES	832,973	0	832,973
CHANGE IN NET ASSETS	78,536	73,356	151,892
Net assets at beginning of year	2,953,035	1,042,412	3,995,447
NET ASSETS AT END OF YEAR	\$ 3,031,571	\$ 1,115,768	\$ 4,147,339

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Gift shop sales:			
Gross sales	\$ 17,749		\$ 17,749
Less: cost of sales	<u>(14,473)</u>		<u>(14,473)</u>
GROSS PROFIT	3,276		3,276
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)
Other	3,729		3,729
Net assets released from restrictions	<u>675,250</u>	<u>(675,250)</u>	<u>0</u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,321,397	(525,959)	795,438
<b>EXPENSES</b>			
Program services	429,437		429,437
Supporting services:			
Management and general	80,153		80,153
Fundraising	<u>148,247</u>		<u>148,247</u>
TOTAL SUPPORTING SERVICES	<u>228,400</u>	<u>0</u>	<u>228,400</u>
TOTAL EXPENSES	<u>657,837</u>	<u>0</u>	<u>657,837</u>
CHANGE IN NET ASSETS	663,560	(525,959)	137,601
Net assets at beginning of year	<u>2,289,475</u>	<u>1,568,371</u>	<u>3,857,846</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,953,035</u>	<u>\$ 1,042,412</u>	<u>\$ 3,995,447</u>

See notes to financial statements.



STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2019

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Payroll expenses	\$ 241,105	\$ 35,499	\$ 10,673	\$ 287,277
Veterinary and medical supplies	129,313			129,313
Food for animals	11,772			11,772
Animal equipment	18,309			18,309
Utilities	35,579	1,874		37,453
Insurance	7,600	422	422	8,444
Custodial supplies/service	12,161			12,161
Office supplies	3,001	167	167	3,335
Repairs and maintenance	6,262			6,262
Travel/Vehicle expenses	4,662			4,662
Publication expenses	14,717			14,717
Community awareness	14,258			14,258
Conferences	881			881
Donated materials	14,953			14,953
Professional fees, including donated services		45,828		45,828
Fundraising events and projects			75,952	75,952
Dog license expense	140			140
Depreciation	70,573	23,524		94,097
Interest expense		27,866		27,866
Gift shop cost of sales	22,980			22,980
Volunteer program		1,280		1,280
Bank fees	4,972	1,421	710	7,103
Miscellaneous		5,560		5,560
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>613,238</b>	<b>143,441</b>	<b>87,924</b>	<b>844,603</b>
Less expenses included with revenues on the statement of activities	(22,980)			(22,980)
<b>TOTAL EXPENSES</b>	<b>\$ 590,258</b>	<b>\$ 143,441</b>	<b>\$ 87,924</b>	<b>\$ 821,623</b>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2018

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
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
Gift shop cost of sales	14,473			14,473
Volunteer program		1,112		1,112
Merchant fees	3,601	1,029	515	5,145
Miscellaneous		7,404		7,404
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>443,910</b>	<b>80,153</b>	<b>148,247</b>	<b>672,310</b>
Less expenses included with revenues on the statement of activities	(14,473)			(14,473)
<b>TOTAL EXPENSES</b>	<b>\$ 429,437</b>	<b>\$ 80,153</b>	<b>\$ 148,247</b>	<b>\$ 657,837</b>

See notes to financial statements.

## STATEMENTS OF CASH FLOWS

### UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended December 31	
	2019	2018
	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS PROVIDED (USED) BY</b>		
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 151,892	\$ 137,601
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	94,097	1,562
Loss of sale of fixed assets	11,350	
Interest income capitalized to certificates of deposit		(4,883)
(Appreciation) Depreciation in fair value of endowment fund investments	(34,254)	14,585
Change in beneficial interest in assets held by the Marquette Community Foundation, net of distributions	(6,575)	11,432
Change in beneficial interest in Dixon Trust, net of distributions	(56,744)	59,892
Contributions restricted for long-term purposes	(116,624)	(178,512)
(Increase) Decrease in:		
Accounts receivable	3,953	1,045
Inventory	(1,104)	
Increase (Decrease) in:		
Accounts payable	(666,445)	7,190
Other current liabilities	2,457	3,859
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(617,997)</u>	<u>53,771</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(153,918)	(2,478,179)
Proceeds from sale of fixed assets	3,603	
Redemption (Purchases) of certificates of deposit		1,005,382
Purchases of investment securities	(9,243)	(7,454)
Sales of investment securities	8,016	9,000
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(151,542)</u>	<u>(1,471,251)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowing	666,949	433,051
Principal payments	(15,592)	
Proceeds from contributions restricted for long-term purposes	164,933	308,141
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>816,290</u>	<u>741,192</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>46,751</u>	<u>(676,288)</u>
Cash and cash equivalents at beginning of year	<u>497,230</u>	<u>1,173,518</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 543,981</u></u>	<u><u>\$ 497,230</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Fixed asset purchases accrued in accounts payable	<u>\$ 19,228</u>	<u>\$ 680,018</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.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts.

#### 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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

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

##### 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.

##### Net Assets

The Shelter reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions: 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 Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. 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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

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

##### Revenue Recognition

Revenue is recognized when earned. Revenue from fee for services and exchange transactions are recognized as the services are performed. Revenue from contributions is recognized at the time an unconditional promise to give or transfer of assets is made.

##### 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 \$30,900 and \$25,720 for the years ended December 31, 2019 and 2018, 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 \$42,457 and \$19,020 of donated materials for the years ended December 31, 2019 and 2018, respectively. In addition, the Shelter received donated advertising from a local newspaper in the amount of \$4,919 and \$28,424 for the years ended December 31, 2019 and 2018, 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 November 11, 2020, 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

##### Recently Adopted Accounting Standard Update

During the year ended December 31, 2019, the Shelter adopted Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was issued to clarify and improve the scope and the accounting guidance for contributions received and contributions made. ASU 2018-08 establishes standards for characterizing grants and similar contracts with resource providers, including (1) evaluating whether these transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASU 2018-08 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

ASU 2018-08 has been implemented on a modified prospective basis. The 2018 financial statements have not been restated and there was no cumulative-effect adjustment to net assets at January 1, 2019.

##### Pending Accounting Standard Updates

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 amended guidance to clarify the principles for recognizing revenue from contracts with customers. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures. ASU 2014-09 was to be effective for the Shelter's year ended December 31, 2019.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires lessees to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. ASU 2016-02 was to be effective for the Shelter's year ended December 31, 2021.

In June 2020, FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842), *Effective Dates for Certain Entities*, which delayed the effective date of the new revenue recognition guidance for not-for-profit entities that had not yet issued their financial statements reflecting its adoption. ASU 2020-05 allows entities to elect to delay adopting ASU 2014-09 until annual reporting periods beginning after December 15, 2019. The Shelter has elected to delay adopting ASU 2014-09 until 2020. ASU 2020-05 also delayed the effective date of ASU 2016-02 until annual reporting periods beginning after December 15, 2021.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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

Reclassifications

Certain reclassifications have been made to the prior year's comparative information to conform to the presentation of the current year's financial statements.

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, comprise the following:

	December 31	
	2019	2018
Cash and cash equivalents	\$ 543,981	\$ 497,230
Accounts receivable		3,953
Pledges receivable, current portion	26,570	61,445
Long-term investments	247,533	212,052
Beneficial interest in assets held by the Marquette Community Foundation	101,700	95,125
Beneficial interest in Dixon Trust	652,451	595,707
	<u>1,572,235</u>	<u>1,465,512</u>
Less endowment investments	(247,533)	(212,052)
Less beneficial interest in assets held by the Marquette Community Foundation	(101,700)	(95,125)
Less beneficial interest in Dixon Trust	(652,451)	(595,707)
Plus anticipated endowment distributions	5,000	5,000
Plus anticipated distribution from Dixon Trust	25,000	25,000
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR EXPENDITURES WITHIN ONE YEAR	<u>\$ 600,551</u>	<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 totaling \$282,682 and \$249,024 at December 31, 2019 and 2018, respectively. The deposits in excess of federally-insured limits are based on the Shelter's bank balances as of December 31, 2019 and 2018.



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	
	2019	2018
Receivable in less than one year	\$ 26,570	\$ 61,445
Receivable in two to five years	43,955	58,355
Receivable in more than five years	2,450	5,050
<b>TOTAL UNCONDITIONAL PLEDGES RECEIVABLE</b>	<b>72,975</b>	<b>124,850</b>
Less allowance for uncollectible pledges	(7,298)	(9,364)
Less discount to net present value (discounted at 3%)	(3,500)	(5,000)
<b>UNCONDITIONAL PLEDGES RECEIVABLE, NET</b>	<b>62,177</b>	<b>110,486</b>
Less current portion	(26,570)	(61,445)
<b>LONG-TERM PLEDGES RECEIVABLE, NET</b>	<b>\$ 35,607</b>	<b>\$ 49,041</b>

NOTE E--LONG-TERM INVESTMENTS

Market value and unrealized appreciation on long-term investments are as follows:

	December 31, 2019		
	Cost	Fair Value	Unrealized Appreciation
Cash	\$ 6,679	\$ 6,679	
Mutual funds	164,655	194,661	\$ 30,006
Common stocks	37,860	46,193	8,333
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>\$ 209,194</b>	<b>\$ 247,533</b>	<b>\$ 38,339</b>

  

	December 31, 2018		
	Cost	Fair Value	Unrealized Appreciation
Cash	\$ 7,840	\$ 7,840	
Mutual funds	154,251	159,143	\$ 4,892
Common stocks	40,938	45,069	4,131
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>\$ 203,029</b>	<b>\$ 212,052</b>	<b>\$ 9,023</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, 2019:</u>	
Original donor-restricted gift amount	\$ 184,717
Accumulated investment gains	<u>62,816</u>
TOTAL	<u>\$ 247,533</u>
 <u>December 31, 2018:</u>	
Donor-restricted endowment funds	\$ 184,717
Accumulated investment gains	<u>27,335</u>
TOTAL	<u>\$ 212,052</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE F--ENDOWMENT FUND--Continued

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

	<u>With Donor Restrictions</u>
Endowment net assets at January 1, 2018	\$ 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	212,052
Investment return, net	40,481
Contributions	0
Appropriation of endowment assets for expenditure	<u>(5,000)</u>
Endowment net assets at December 31, 2019	<u>\$ 247,533</u>

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 restrictions net asset class, due to the time restriction. The fair value of the Trust assets totaled \$652,451 and \$595,707 as of December 31, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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.

The following table presents information about the Shelter's investments and beneficial interests measured at fair value on a recurring basis at December 31, 2019:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 6,679	\$ 6,679		
Mutual funds	194,661	194,661		
Common stocks	46,193	46,193		
Total Investment Securities	<u>247,533</u>	<u>247,533</u>	\$ 0	\$ 0
Beneficial interests:				
Beneficial interest in assets held by the Marquette Community Foundation				101,700
Beneficial interest in Dixon Trust			652,451	
Total Beneficial Interests	<u>0</u>	<u>0</u>	<u>652,451</u>	<u>101,700</u>
TOTAL	<u>\$ 247,533</u>	<u>\$ 247,533</u>	<u>\$ 652,451</u>	<u>\$ 101,700</u>

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 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, 2019	\$ 95,125
Change in value of beneficial interests	9,923
Administrative fees	(293)
Distributions	<u>(3,055)</u>
Balance at December 31, 2019	<u>\$ 101,700</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE I--NOTE PAYABLE

Note payable consists of the following:

	December 31	
	<u>2019</u>	<u>2018</u>
Commercial real estate mortgage financed through a bank with a maximum draw amount of \$1,104,754. The note required interest-only payments at a rate of 2.95% through June 2019, then principal and interest payments of \$5,332 through an April 2024 balloon maturity. The note is secured by the new shelter building.	<u>\$ 1,084,408</u>	<u>\$ 433,051</u>
TOTAL NOTE PAYABLE	<u><u>\$ 1,084,408</u></u>	<u><u>\$ 433,051</u></u>

Total interest paid was \$27,866 for the year ended December 31, 2019.

Aggregate maturities of the note payable are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2020	\$ 32,434
2021	33,404
2022	34,403
2023	35,432
2024	<u>948,735</u>
	<u><u>\$ 1,084,408</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE J--NET ASSET DESIGNATIONS AND RESTRICTIONS

Net asset designations and restrictions are as follows:

	December 31	
	2019	2018
Net assets without donor restrictions	\$3,031,571	\$2,953,035
Net assets with donor restrictions		
Subject to the passage of time or expenditure for specific purpose:		
New Shelter facility		110,486
Debt retirement	98,441	
Horse protection and education	17,343	14,367
Land		9,800
Beneficial interest in Dixon Trust	652,451	595,707
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIC PURPOSE	<u>768,235</u>	<u>730,360</u>
Subject to the Shelter's spending policy and appropriation:		
Beneficial interest in assets held by Marquette Community Foundation	100,000	100,000
Endowment fund	247,533	212,052
TOTAL NET ASSETS SUBJECT TO SPENDING POLICY	<u>347,533</u>	<u>312,052</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>1,115,768</u>	<u>1,042,412</u>
TOTAL NET ASSETS	<u>\$4,147,339</u>	<u>\$3,995,447</u>

The parcel of land on which the old Shelter facility was 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. The land and former Shelter building were sold in March 2019.

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 net assets without donor restrictions.

Net assets with donor restrictions include amounts designated by donors for an endowment fund. Income earned on investments may be used for general purposes.

## 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.

#### NOTE M--RELATED-PARTY TRANSACTIONS

A member of the Board of Directors owns a local veterinary practice. The Shelter paid this practice approximately \$20,659 and \$38,264 for services during the years ended December 31, 2019 and 2018, respectively.

#### NOTE N--SUBSEQUENT EVENT

In March 2020, the COVID-19 virus was declared a global pandemic, as it continued to spread rapidly. In response to the COVID-19 pandemic, the Governor of Michigan enacted the "Stay Home, Stay Safe" Executive Order, directing all Michigan businesses and operations to temporarily suspend in-person operations that are not necessary to sustain or protect life. The Shelter's management is carefully monitoring the situation and evaluating its options during this time. Future potential impacts to the Shelter may include decreases in support and revenues or uncollectible pledges receivable. Any potential impact to the Shelter's future operations and financial condition is unknown at this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Subsequent to year end, the Shelter applied for, and was approved for, a \$54,300 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the U.S. Small Business Administration. The loan accrues interest at one percent, but payments are not required to begin for six months after the funding of the loan. The Shelter is eligible for forgiveness of up to 100 percent of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the federal government.