

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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.

**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, 2020 and 2019, 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.*

August 17, 2021

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

	December 31	
	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 655,996	\$ 543,981
Accounts receivable	502	
Inventory	67	1,104
Pledges receivable, current portion	15,770	26,570
TOTAL CURRENT ASSETS	<u>672,335</u>	<u>571,655</u>
<b>OTHER ASSETS</b>		
Pledges receivable, non-current, net	25,777	35,607
Long-term investments	275,898	247,533
Beneficial interest in assets held by the Marquette Community Foundation	120,566	101,700
Beneficial interest in Dixon Trust	678,761	652,451
TOTAL OTHER ASSETS	<u>1,101,002</u>	<u>1,037,291</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Land	20,587	20,587
Buildings and improvements	3,632,715	3,631,115
Vehicles	23,149	44,792
Office and kennel furniture and equipment	100,080	100,080
	<u>3,776,531</u>	<u>3,796,574</u>
Less accumulated depreciation	239,710	121,006
PROPERTY, PLANT, AND EQUIPMENT, NET	<u>3,536,821</u>	<u>3,675,568</u>
TOTAL ASSETS	<u>\$ 5,310,158</u>	<u>\$ 5,284,514</u>

	December 31	
	2020	2019
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 25,890	\$ 32,217
Accrued payroll and payroll taxes	12,800	15,549
Accrued benefits	584	4,068
Sales tax payable	788	933
Note payable, current portion	33,404	32,434
TOTAL CURRENT LIABILITIES	<u>73,466</u>	<u>85,201</u>
<b>LONG-TERM LIABILITIES</b>		
Note payable	1,030,357	1,084,408
Paycheck Protection Program loan	54,300	
Less current portion	(33,404)	(32,434)
TOTAL LONG-TERM LIABILITIES	<u>1,051,253</u>	<u>1,051,974</u>
TOTAL LIABILITIES	<u>1,124,719</u>	<u>1,137,175</u>
<b>NET ASSETS</b>		
Without donor restrictions	3,062,113	3,031,571
With donor restrictions	1,123,326	1,115,768
TOTAL NET ASSETS	<u>4,185,439</u>	<u>4,147,339</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,310,158</u>	<u>\$ 5,284,514</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Gift shop sales:			
Gross sales	\$ 16,304		\$ 16,304
Less: cost of sales	(13,038)		(13,038)
GROSS PROFIT	3,266		3,266
Shelter revenue	74,552		74,552
Direct public support	296,147	\$ 14,786	310,933
Bequests	26,588		26,588
Revenues from fundraising events and special projects	162,248		162,248
Governmental contracted services	16,252		16,252
Grants	2,257		2,257
Donated services, materials, and facility	103,432		103,432
Interest and dividends	18		18
Distribution of earnings from Marquette Community Foundation - Reider Fund	12,377		12,377
Change in value of beneficial interest in assets held by Marquette Community Foundation	22,369		22,369
Change in beneficial interest in Dixon Trust		57,830	57,830
Investment return, net		28,365	28,365
Gain on sale of fixed asset	200		200
Other	6,601		6,601
Net assets released from restrictions	93,423	(93,423)	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	819,730	7,558	827,288
<b>EXPENSES</b>			
Program services	564,721		564,721
Supporting services:			
Management and general	184,354		184,354
Fundraising	40,113		40,113
TOTAL SUPPORTING SERVICES	224,467	0	224,467
TOTAL EXPENSES	789,188	0	789,188
CHANGE IN NET ASSETS	30,542	7,558	38,100
Net assets at beginning of year	3,031,571	1,115,768	4,147,339
NET ASSETS AT END OF YEAR	\$ 3,062,113	\$ 1,123,326	\$ 4,185,439

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 FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2020

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Payroll expenses	\$ 227,051			\$ 227,051
Veterinary and medical supplies	112,870			112,870
Food for animals	15,626			15,626
Animal equipment	4,637			4,637
Utilities	29,777	\$ 1,568		31,345
Insurance	9,063	504	\$ 504	10,071
Custodial supplies/service	11,418			11,418
Office supplies	4,728	263	263	5,254
Repairs and maintenance	8,103			8,103
Travel/Vehicle expenses	1,057			1,057
Publication expenses	9,751			9,751
Community awareness	4,822			4,822
Conferences	44			44
Donated materials	2,100			2,100
Professional fees, including donated services		112,753		112,753
Fundraising events and projects			38,688	38,688
Dog license expense	432			432
Depreciation	105,260	35,087		140,347
Interest expense		32,202		32,202
Gift shop cost of sales	13,038			13,038
Volunteer program		660		660
Bank fees	4,609	1,317	658	6,584
Miscellaneous	13,373			13,373
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>577,759</b>	<b>184,354</b>	<b>40,113</b>	<b>802,226</b>
Less expenses included with revenues on the statement of activities	(13,038)			(13,038)
<b>TOTAL EXPENSES</b>	<b>\$ 564,721</b>	<b>\$ 184,354</b>	<b>\$ 40,113</b>	<b>\$ 789,188</b>

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.

## STATEMENTS OF CASH FLOWS

### UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended December 31	
	2020	2019
	<u>          </u>	<u>          </u>
<b>CASH FLOWS PROVIDED (USED) BY</b>		
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 38,100	\$ 151,892
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	140,347	94,097
(Gain) Loss of sale of fixed assets	(200)	11,350
Appreciation in fair value of endowment fund investments	(23,006)	(34,254)
Change in beneficial interest in assets held by the Marquette Community Foundation, net of distributions	(18,866)	(6,575)
Change in beneficial interest in Dixon Trust, net of distributions	(26,310)	(56,744)
Contributions restricted for long-term purposes	(3,770)	(116,624)
(Increase) Decrease in:		
Accounts receivable	(502)	3,953
Inventory	1,037	(1,104)
Increase (Decrease) in:		
Accounts payable	(6,327)	(666,445)
Other current liabilities	(6,378)	2,457
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>94,125</u>	<u>(617,997)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(1,600)	(153,918)
Proceeds from sale of fixed assets	200	3,603
Purchases of investment securities	(16,272)	(9,243)
Sales of investment securities	10,913	8,016
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(6,759)</u>	<u>(151,542)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowing	54,300	666,949
Principal payments on loans	(54,051)	(15,592)
Proceeds from contributions restricted for long-term purposes	24,400	164,933
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>24,649</u>	<u>816,290</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>112,015</u>	<u>46,751</u>
Cash and cash equivalents at beginning of year	<u>543,981</u>	<u>497,230</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 655,996</u></u>	<u><u>\$ 543,981</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Fixed asset purchases accrued in accounts payable	<u>1,128</u>	<u>19,228</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 in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

#### Cash and Cash Equivalents

Cash and cash equivalents consist of checking 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

##### 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.

##### 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.

##### 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 \$84,910 and \$34,056 for the years ended December 31, 2020 and 2019, 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 \$18,522 and \$39,301 of donated materials for the years ended December 31, 2020 and 2019, respectively. In addition, the Shelter received donated advertising from a local newspaper in the amount of \$0 and \$4,919 for the years ended December 31, 2020 and 2019, 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.

##### 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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

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

##### Subsequent Events

Subsequent events were evaluated through August 17, 2021, which is the date the financial statements were available to be issued.

##### Recently Adopted Accounting Standard Update

The Financial Accounting Standards Board's (FASB's) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively referred to as *Topic 606*) amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance 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. The guidance 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.

The Shelter adopted *Topic 606* on January 1, 2020, using the modified retrospective method. Results for the year ended December 31, 2020, are presented in accordance with *Topic 606* and prior period amounts are reported under legacy U.S. GAAP. The adoption of *Topic 606* did not result in a change to the accounting for any in-scope revenue streams; as such, no cumulative effect adjustment to net assets was required.

##### Pending Accounting Standard Update

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This guidance requires lessees to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. This guidance was to be effective for the Shelter's year ended December 31, 2021. In June 2020, FASB issued Accounting Standards Update 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*, which delayed the effective date of *Topic 842* until annual reporting periods beginning after December 15, 2021 (fiscal year beginning January 1, 2022, for the Shelter).

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, comprise the following:

	December 31	
	2020	2019
Cash and cash equivalents	\$ 655,996	\$ 543,981
Accounts receivable	502	
Pledges receivable, current portion	15,770	26,570
Long-term investments	275,898	247,533
Beneficial interest in assets held by the Marquette Community Foundation	120,566	101,700
Beneficial interest in Dixon Trust	678,761	652,451
	<u>1,747,493</u>	<u>1,572,235</u>
Less endowment investments	(275,898)	(247,533)
Less beneficial interest in assets held by the Marquette Community Foundation	(120,566)	(101,700)
Less beneficial interest in Dixon Trust	(678,761)	(652,451)
Plus anticipated endowment distributions	5,000	5,000
Plus anticipated distribution from Dixon Trust	25,000	25,000
	<u>25,000</u>	<u>25,000</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR EXPENDITURES WITHIN ONE YEAR	<u>\$ 702,268</u>	<u>\$ 600,551</u>

NOTE C--CONCENTRATION OF CREDIT RISK

The Shelter had cash deposits in excess of federally-insured limits totaling \$394,172 and \$282,682 at December 31, 2020 and 2019, respectively. The deposits in excess of federally-insured limits are based on the Shelter's bank balances as of December 31, 2020 and 2019.

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	
	2020	2019
Receivable in less than one year	\$ 15,770	\$ 26,570
Receivable in two to five years	33,975	43,955
Receivable in more than five years	150	2,450
TOTAL UNCONDITIONAL PLEDGES RECEIVABLE	<u>49,895</u>	<u>72,975</u>
Less allowance for uncollectible pledges	(4,990)	(7,298)
Less discount to net present value (discounted at 3%)	(3,358)	(3,500)
UNCONDITIONAL PLEDGES RECEIVABLE, NET	<u>41,547</u>	<u>62,177</u>
Less current portion	<u>(15,770)</u>	<u>(26,570)</u>
LONG-TERM PLEDGES RECEIVABLE, NET	<u><u>\$ 25,777</u></u>	<u><u>\$ 35,607</u></u>

NOTE E--LONG-TERM INVESTMENTS

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

	December 31, 2020		
	Cost	Fair Value	Unrealized Appreciation
Cash	\$ 11,014	\$ 11,014	
Mutual funds	168,792	219,611	\$ 50,819
Common stocks	<u>35,409</u>	<u>45,273</u>	<u>9,864</u>
TOTAL LONG-TERM INVESTMENTS	<u><u>\$ 215,215</u></u>	<u><u>\$ 275,898</u></u>	<u><u>\$ 60,683</u></u>
	December 31, 2019		
	Cost	Fair Value	Unrealized Appreciation
Cash	\$ 6,679	\$ 6,679	
Mutual funds	164,655	194,661	\$ 30,006
Common stocks	<u>37,860</u>	<u>46,193</u>	<u>8,333</u>
TOTAL LONG-TERM INVESTMENTS	<u><u>\$ 209,194</u></u>	<u><u>\$ 247,533</u></u>	<u><u>\$ 38,339</u></u>



NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE E--LONG-TERM INVESTMENTS--Continued

Investment return for the years ended December 31 is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 7,728	\$ 8,495
Realized gain	662	4,938
Unrealized gain	22,344	29,316
Investment management fees	<u>(2,369)</u>	<u>(2,268)</u>
 TOTAL INVESTMENT RETURN	 <u>\$ 28,365</u>	 <u>\$ 40,481</u>

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, 2020:</u>	
Original donor-restricted gift amount	\$ 184,717
Accumulated investment gains	<u>91,181</u>
 TOTAL	 <u>\$ 275,898</u>
 <u>December 31, 2019:</u>	
Donor-restricted endowment funds	\$ 184,717
Accumulated investment gains	<u>62,816</u>
 TOTAL	 <u>\$ 247,533</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, 2019	\$ 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	247,533
Investment return, net	28,365
Contributions	0
Appropriation of endowment assets for expenditure	<u>0</u>
Endowment net assets at December 31, 2020	<u><u>\$ 275,898</u></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 \$678,761 and \$652,451 as of December 31, 2020 and 2019, 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 interest in Dixon Trust: The fair value of the beneficial interest in Dixon Trust is based on quoted market prices of the underlying investments.

Beneficial interest in assets held by the Marquette Community Foundation: The fair value of the beneficial interest in assets held by the Marquette Community Foundation is based on unobservable inputs.

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, 2020:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 11,014	\$ 11,014		
Mutual funds	219,611	219,611		
Common stocks	45,273	45,273		
Total Investment Securities	<u>275,898</u>	<u>275,898</u>	\$ 0	\$ 0
Beneficial interests:				
Beneficial interest in assets held by the Marquette Community Foundation	120,566			120,566
Beneficial interest in Dixon Trust	678,761		678,761	
Total Beneficial Interests	<u>799,327</u>	<u>0</u>	<u>678,761</u>	<u>120,566</u>
TOTAL	<u>\$1,075,225</u>	<u>\$ 275,898</u>	<u>\$ 678,761</u>	<u>\$ 120,566</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, 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			101,700
Beneficial interest in Dixon Trust	652,451		652,451	
Total Beneficial Interests	<u>754,151</u>	<u>0</u>	<u>652,451</u>	<u>101,700</u>
TOTAL	<u>\$1,001,684</u>	<u>\$ 247,533</u>	<u>\$ 652,451</u>	<u>\$ 101,700</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE I--NOTES PAYABLE

Notes payable consists of the following:

	December 31	
	<u>2020</u>	<u>2019</u>
Commercial real estate mortgage financed through a bank with a fixed interest rate of 2.95%. The note requires monthly principal and interest payments of \$5,332 to an April 2024 balloon maturity. The note is secured by the new shelter building.	<u>\$ 1,030,357</u>	<u>\$ 1,084,408</u>
TOTAL NOTE PAYABLE	<u><u>\$ 1,030,357</u></u>	<u><u>\$ 1,084,408</u></u>

Total interest paid was \$32,202 and \$27,866 for the years ended December 31, 2020 and 2019.

Aggregate maturities of the note payable are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2021	\$ 33,404
2022	34,403
2023	35,432
2024	<u>927,118</u>
	<u><u>\$ 1,030,357</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	
	2020	2019
Net assets without donor restrictions	\$3,062,113	\$3,031,571
Net assets with donor restrictions		
Subject to the passage of time or expenditure for specific purpose:		
Debt retirement	48,160	98,441
Horse protection and education	20,507	17,343
Beneficial interest in Dixon Trust	678,761	652,451
TOTAL SUBJECT TO THE PASSAGE OF TIME OR EXPENDITURE FOR SPECIFIC PURPOSE	<u>747,428</u>	<u>768,235</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	275,898	247,533
TOTAL SUBJECT TO THE SHELTER'S SPENDING POLICY AND APPROPRIATION	<u>375,898</u>	<u>347,533</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>1,123,326</u>	<u>1,115,768</u>
TOTAL NET ASSETS	<u>\$4,185,439</u>	<u>\$4,147,339</u>

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 individual left the Board of Directors in July 2020. Payments to this related party from January through July 2020 totaled \$15,215. The Shelter paid this related party \$20,659 for services during the year ended December 31, 2019.

#### NOTE N--PAYCHECK PROTECTION PROGRAM

##### First Draw PPP Loan

On June 9, 2020, the Shelter received loan proceeds in the amount of \$54,300, pursuant to the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll and certain other expenses. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes. The note has a scheduled maturity of June 8, 2022, and bears an interest rate of 1%. Payments of unpaid principal and interest are deferred until the Small Business Administration remits the amount of forgiveness of the note to the lender or notifies the lender that no loan forgiveness is allowed.

The PPP loan is recorded with notes payable on the 2020 balance sheet.

The PPP loan was forgiven on March 31, 2021, and the Shelter will recognize the \$54,300 as loan forgiveness income in 2021.

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

#### NOTE N--PAYCHECK PROTECTION PROGRAM--Continued

##### Second Draw PPP Loan

On March 10, 2021, the Shelter received loan proceeds in the amount of \$54,300, pursuant to the PPP established as part of the CARES Act. The note has a scheduled maturity of March 10, 2026, and bears an interest rate of 1%. Payments of unpaid principal and interest are deferred until the Small Business Administration remits the amount of forgiveness of the note to the lender or notifies the lender that no loan forgiveness is allowed.

The Shelter intends to use the proceeds for purposes consistent with the PPP. While the Shelter currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, there is no guarantee that the Shelter will not take actions that could cause the Shelter to be ineligible for forgiveness of the loan, in whole or in part.

#### NOTE O--RISKS AND UNCERTAINTIES

The Shelter may be subject to social and natural catastrophic events that are beyond the control of the Shelter, such as health epidemics, natural disasters, and other catastrophes, which could materially and adversely affect the Shelter's results of operations and financial condition.

In response to the COVID-19 pandemic, the Shelter adjusted business operations in 2020. Should the COVID-19 pandemic continue, or the local and national economies be materially impacted, the Shelter could see a decrease in public support and revenue. The Shelter is continuing to monitor the situation. Any potential impact to the Shelter's future operations and financial condition is unknown at this time.