

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Upper Peninsula Animal Welfare Shelter  
Gwinn, Michigan

**Opinion**

We have audited the accompanying financial statements of the Upper Peninsula Animal Welfare Shelter (Shelter) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shelter, as of December 30, 2021 and 2020, 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.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Shelter and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Shelter's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Board of Directors  
Upper Peninsula Animal Welfare Shelter

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Shelter's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Shelter's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

October 24, 2022

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

	December 31	
	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 914,151	\$ 655,996
Accounts receivable	2,867	502
Inventory		67
Pledges receivable, current portion	14,855	15,770
TOTAL CURRENT ASSETS	<u>931,873</u>	<u>672,335</u>
<b>OTHER ASSETS</b>		
Pledges receivable, non-current, net	961	25,777
Long-term investments	303,783	275,898
Beneficial interest in assets held by the Marquette Community Foundation	132,686	120,566
Beneficial interest in Dixon Trust	721,284	678,761
TOTAL OTHER ASSETS	<u>1,158,714</u>	<u>1,101,002</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Land	20,587	20,587
Buildings and improvements	3,632,715	3,632,715
Vehicles	23,149	23,149
Office and kennel furniture and equipment	100,080	100,080
	<u>3,776,531</u>	<u>3,776,531</u>
Less accumulated depreciation	380,057	239,710
PROPERTY, PLANT, AND EQUIPMENT, NET	<u>3,396,474</u>	<u>3,536,821</u>
TOTAL ASSETS	<u><u>\$ 5,487,061</u></u>	<u><u>\$ 5,310,158</u></u>

	December 31	
	2021	2020
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,523	\$ 25,890
Accrued payroll and payroll taxes	18,662	12,800
Accrued benefits	8,206	584
Sales tax payable	813	788
Note payable, current portion		33,404
TOTAL CURRENT LIABILITIES	<u>37,204</u>	<u>73,466</u>
<b>LONG-TERM LIABILITIES</b>		
Note payable		1,030,357
Paycheck Protection Program loan		54,300
Less current portion		(33,404)
TOTAL LONG-TERM LIABILITIES	<u>0</u>	<u>1,051,253</u>
TOTAL LIABILITIES	37,204	1,124,719
<b>NET ASSETS</b>		
Without donor restrictions	4,245,215	3,041,547
With donor restrictions	1,204,642	1,143,892
TOTAL NET ASSETS	<u>5,449,857</u>	<u>4,185,439</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,487,061</u>	<u>\$ 5,310,158</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Gift shop sales:			
Gross sales	\$ 37,859		\$ 37,859
Less: cost of sales	(22,285)		(22,285)
GROSS PROFIT	15,574		15,574
Shelter revenue	107,076		107,076
Direct public support	277,167	\$ 12,550	289,717
Bequests	1,226,401		1,226,401
Revenues from fundraising events and special projects	117,686		117,686
Governmental contracted services	20,719		20,719
Grants	7,455		7,455
Donated services, materials, and facility	70,820		70,820
Interest and dividends	550		550
Distribution of earnings from Marquette Community Foundation - Reider Fund	16,438		16,438
Change in value of beneficial interest in assets held by Marquette Community Foundation		15,902	15,902
Change in beneficial interest in Dixon Trust		74,624	74,624
Investment return, net		27,885	27,885
Other	112,652		112,652
Net assets released from restrictions	60,275	(60,275)	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	2,032,813	70,686	2,103,499
<b>EXPENSES AND LOSSES</b>			
Program services	627,715		627,715
Supporting services:			
Management and general	140,045		140,045
Fundraising	61,385		61,385
TOTAL SUPPORTING SERVICES	201,430	0	201,430
TOTAL EXPENSES	829,145	0	829,145
Bad debt loss		9,936	9,936
TOTAL EXPENSES AND LOSSES	829,145	9,936	839,081
CHANGE IN NET ASSETS	1,203,668	60,750	1,264,418
Net assets at beginning of year	3,041,547	1,143,892	4,185,439
NET ASSETS AT END OF YEAR	\$ 4,245,215	\$ 1,204,642	\$ 5,449,857

See notes to financial statements.



STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2020

	<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	\$ 16,304		\$ 16,304
Less: cost of sales	<u>(13,038)</u>		<u>(13,038)</u>
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	<u>95,226</u>	<u>(95,226)</u>	<u>0</u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	799,164	28,124	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	<u>224,467</u>	<u>0</u>	<u>224,467</u>
TOTAL EXPENSES	<u>789,188</u>	<u>0</u>	<u>789,188</u>
CHANGE IN NET ASSETS	9,976	28,124	38,100
Net assets at beginning of year	<u>3,031,571</u>	<u>1,115,768</u>	<u>4,147,339</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,041,547</u>	<u>\$ 1,143,892</u>	<u>\$ 4,185,439</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2021

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Payroll expenses	\$ 307,567	\$ 43,044	\$ 16,723	\$ 367,334
Veterinary and medical supplies	79,857			79,857
Food for animals	8,363			8,363
Animal equipment	7,637			7,637
Utilities	30,803	1,712	1,712	34,227
Insurance	10,435	580	580	11,595
Custodial supplies/service	6,534	344		6,878
Office supplies	5,573	310	310	6,193
Repairs and maintenance	8,415			8,415
Travel/Vehicle expenses	2,325	129	129	2,583
Publication expenses	4,504	4,504	2,252	11,260
Community awareness	7,403			7,403
Conferences	140			140
Professional fees, including donated services		68,866		68,866
Fundraising events and projects			31,153	31,153
Dog license expense	390			390
Depreciation	126,313	7,017	7,017	140,347
Interest expense	15,938	886	886	17,710
Gift shop cost of sales	22,285			22,285
Volunteer program	1,158			1,158
Bank fees	4,360	1,246	623	6,229
Miscellaneous		11,407		11,407
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>650,000</b>	<b>140,045</b>	<b>61,385</b>	<b>851,430</b>
Less expenses included with revenues on the statement of activities	(22,285)			(22,285)
<b>TOTAL EXPENSES</b>	<b>\$ 627,715</b>	<b>\$ 140,045</b>	<b>\$ 61,385</b>	<b>\$ 829,145</b>

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.

## STATEMENTS OF CASH FLOWS

### UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended December 31	
	2021	2020
<b>CASH FLOWS PROVIDED (USED) BY</b>		
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,264,418	\$ 38,100
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	140,347	140,347
(Gain) Loss of sale of fixed assets		(200)
PPP loan forgiveness	(108,600)	
Bad debt loss	9,936	
Appreciation in fair value of endowment fund investments	(16,100)	(23,006)
Change in beneficial interest in assets held by the Marquette Community Foundation, net of distributions	(12,120)	(18,866)
Change in beneficial interest in Dixon Trust, net of distributions	(42,523)	(26,310)
Contributions restricted for long-term purposes		(3,770)
(Increase) Decrease in:		
Accounts receivable	(2,365)	(502)
Inventory	67	1,037
Increase (Decrease) in:		
Accounts payable	(16,367)	(6,327)
Other current liabilities	13,509	(6,378)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,230,202</b>	<b>94,125</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets		(1,600)
Proceeds from sale of fixed assets		200
Purchases of investment securities	(26,939)	(16,272)
Sales of investment securities	15,154	10,913
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(11,785)</b>	<b>(6,759)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowing	54,300	54,300
Principal payments on loans	(1,030,357)	(54,051)
Proceeds from contributions restricted for long-term purposes	15,795	24,400
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(960,262)</b>	<b>24,649</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>258,155</b>	<b>112,015</b>
Cash and cash equivalents at beginning of year	655,996	543,981
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 914,151</b>	<b>\$ 655,996</b>

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 \$53,280 and \$84,910 for the years ended December 31, 2021 and 2020, 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 \$17,540 and \$18,522 of donated materials for the years ended December 31, 2021 and 2020, 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 October 24, 2022, which is the date the financial statements were available to be issued.

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	
	2021	2020
Cash and cash equivalents	\$ 914,151	\$ 655,996
Accounts receivable	2,867	502
Pledges receivable, current portion	14,855	15,770
Long-term investments	303,783	275,898
Beneficial interest in assets held by the Marquette Community Foundation	132,686	120,566
Beneficial interest in Dixon Trust	<u>721,284</u>	<u>678,761</u>
	2,089,626	1,747,493
Less endowment investments	(303,783)	(275,898)
Less beneficial interest in assets held by the Marquette Community Foundation	(132,686)	(120,566)
Less beneficial interest in Dixon Trust	(721,284)	(678,761)
Plus anticipated endowment distributions	5,000	5,000
Plus anticipated distribution from Dixon Trust	<u>25,000</u>	<u>25,000</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR EXPENDITURES WITHIN ONE YEAR	<u>\$ 961,873</u>	<u>\$ 702,268</u>

NOTE C--CONCENTRATION OF CREDIT RISK

The Shelter had cash deposits in excess of federally-insured limits totaling \$653,000 and \$394,000 at December 31, 2021 and 2020, respectively. The deposits in excess of federally-insured limits are based on the Shelter's bank balances as of December 31, 2021 and 2020.



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	
	2021	2020
Receivable in less than one year	\$ 14,855	\$ 15,770
Receivable in two to five years	18,140	33,975
Receivable in more than five years		150
<b>TOTAL UNCONDITIONAL PLEDGES RECEIVABLE</b>	<b>32,995</b>	<b>49,895</b>
Less allowance for uncollectible pledges	(14,925)	(4,990)
Less discount to net present value (discounted at 3%)	(2,254)	(3,358)
<b>UNCONDITIONAL PLEDGES RECEIVABLE, NET</b>	<b>15,816</b>	<b>41,547</b>
Less current portion	(14,855)	(15,770)
<b>LONG-TERM PLEDGES RECEIVABLE, NET</b>	<b>\$ 961</b>	<b>\$ 25,777</b>

NOTE E--LONG-TERM INVESTMENTS

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

	December 31, 2021		
	Cost	Fair Value	Unrealized Appreciation
Cash	\$ 11,085	\$ 11,085	
Mutual funds	172,848	228,311	\$ 55,463
Common stocks	47,600	64,387	16,787
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>\$ 231,533</b>	<b>\$ 303,783</b>	<b>\$ 72,250</b>
	December 31, 2020		
	Cost	Fair Value	Unrealized Appreciation
Cash	\$ 11,014	\$ 11,014	
Mutual funds	168,792	219,611	\$ 50,819
Common stocks	35,409	45,273	9,864
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>\$ 215,215</b>	<b>\$ 275,898</b>	<b>\$ 60,683</b>

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>2021</u>	<u>2020</u>
Interest and dividends	\$ 14,644	\$ 7,728
Realized gain	3,512	662
Unrealized gain	12,588	22,344
Investment management fees	<u>(2,859)</u>	<u>(2,369)</u>
 TOTAL INVESTMENT RETURN	 <u>\$ 27,885</u>	 <u>\$ 28,365</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, 2021:</u>	
Original donor-restricted gift amount	\$ 184,717
Accumulated investment gains	<u>119,066</u>
 TOTAL	 <u>\$ 303,783</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>

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	\$ 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	275,898
Investment return, net	27,885
Contributions	0
Appropriation of endowment assets for expenditure	<u>0</u>
Endowment net assets at December 31, 2021	<u><u>\$ 303,783</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 \$721,284 and \$678,761 as of December 31, 2021 and 2020, 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, 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 11,085	\$ 11,085		
Mutual funds	228,311	228,311		
Common stocks	64,387	64,387		
TOTAL INVESTMENT SECURITIES	<u>303,783</u>	<u>303,783</u>	\$ 0	\$ 0
Beneficial interests:				
Beneficial interest in assets held by the Marquette Community Foundation	132,686			132,686
Beneficial interest in Dixon Trust	721,284		721,284	
TOTAL BENEFICIAL INTERESTS	<u>853,970</u>	<u>0</u>	<u>721,284</u>	<u>132,686</u>
TOTAL	<u>\$1,157,753</u>	<u>\$ 303,783</u>	<u>\$ 721,284</u>	<u>\$ 132,686</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, 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>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE I--NOTE PAYABLE

Note payable consists of the following:

	December 31	
	2021	2020
Commercial real estate mortgage financed through a bank with a fixed interest rate of 2.95%. The note required monthly principal and interest payments of \$5,332 to a scheduled maturity of April 2024. The note was secured by the new shelter building. The note was paid off in 2021.	<u>                    </u>	<u>\$ 1,030,357</u>
TOTAL NOTE PAYABLE	<u>\$ 0</u>	<u>\$ 1,030,357</u>

Total interest paid was \$17,710 and \$32,202 for the years ended December 31, 2021 and 2020, respectively.

NOTE J--NET ASSET DESIGNATIONS AND RESTRICTIONS

Net asset designations and restrictions are as follows:

	December 31	
	2021	2020
Net assets without donor restrictions	\$4,245,215	\$3,041,547
Net assets with donor restrictions		
Subject to the passage of time or expenditure for specific purpose:		
Pledges receivable	15,816	48,160
Horse protection and education	31,073	20,507
Beneficial interest in Dixon Trust	<u>721,284</u>	<u>678,761</u>
TOTAL SUBJECT TO THE PASSAGE OF TIME OR EXPENDITURE FOR SPECIFIC PURPOSE	768,173	747,428
Perpetual in nature, subject to spending policies and appropriation:		
Beneficial interest in assets held by Marquette Community Foundation	132,686	120,566
Endowment fund	<u>303,783</u>	<u>275,898</u>
TOTAL SUBJECT TO THE SHELTER'S SPENDING POLICY AND APPROPRIATION	<u>436,469</u>	<u>396,464</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>1,204,642</u>	<u>1,143,892</u>
TOTAL NET ASSETS	<u>\$5,449,857</u>	<u>\$4,185,439</u>

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

#### NOTE J--NET ASSET DESIGNATIONS AND RESTRICTIONS--Continued

In 2004, the Shelter contributed assets to the Marquette Community Foundation (Foundation) to establish the Marquette County Humane Society Agency Fund (Fund). The Shelter named itself as the beneficiary of the expendable earnings, which are to be distributed at least annually. The Shelter granted variance power to the Foundation, whereby if the Fund is terminated or if the Foundation dissolves, ceases to exist, or ceases to hold or administer the funds, the governing board of the Foundation shall distribute the net assets as it chooses, giving primary consideration to the Shelter or to an organization or purpose recommended by the Shelter. In accordance with FASB ASC 958-20, *Not-for-Profit Entities - Financially Interrelated Entities*, these amounts are reported on the Shelter's statement of financial position as a beneficial interest in assets held by the Marquette Community Foundation. Earning distributions are recognized as an increase in 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.

#### 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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA ANIMAL WELFARE SHELTER

#### 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 note had a scheduled maturity of June 8, 2022, and bore an interest rate of 1%.

The PPP loan was forgiven on March 31, 2021, and the Shelter recorded this as other income during the year ended December 31, 2021.

##### 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 had a scheduled maturity of March 10, 2026, and bore an interest rate of 1%.

The PPP loan was forgiven in November 2021, and the Shelter recorded this as other income during the year ended December 31, 2021.

#### 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 2021 and 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.