

Audited Financial Statements

UPPER PENINSULA ANIMAL WELFARE SHELTER

Years Ended December 31, 2022 and 2021

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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, 2022 and 2021, 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 31, 2022 and 2021, 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, Tautamt, Hill, Nardi & Katona, P.C.

November 13, 2023

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA ANIMAL WELFARE SHELTER

	December 31	
	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,000,010	\$ 914,151
Accounts receivable	3,742	2,867
Pledges receivable, current portion	5,190	14,855
TOTAL CURRENT ASSETS	1,008,942	931,873
OTHER ASSETS		
Pledges receivable, non-current, net	1,322	961
Investments	332,266	303,783
Beneficial interest in assets held by the Marquette Community Foundation	107,677	132,686
Beneficial interest in Dixon Trust	593,809	721,284
TOTAL OTHER ASSETS	1,035,074	1,158,714
PROPERTY, PLANT, AND EQUIPMENT		
Land	20,587	20,587
Buildings and improvements	3,653,333	3,632,715
Vehicles	23,149	23,149
Office and kennel furniture and equipment	100,080	100,080
	3,797,149	3,776,531
Less accumulated depreciation	520,919	380,057
PROPERTY, PLANT, AND EQUIPMENT, NET	3,276,230	3,396,474
TOTAL ASSETS	\$ 5,320,246	\$ 5,487,061

	December 31	
	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 15,923	\$ 9,523
Accrued payroll and payroll taxes	14,695	18,662
Accrued benefits	10,193	8,206
Sales tax payable	2,876	813
TOTAL CURRENT LIABILITIES	43,687	37,204
NET ASSETS		
Without donor restrictions:		
Undesignated	4,189,017	4,245,215
Board-designated - endowment	80,072	
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	4,269,089	4,245,215
With donor restrictions	1,007,470	1,204,642
TOTAL NET ASSETS	5,276,559	5,449,857
TOTAL LIABILITIES AND NET ASSETS	\$ 5,320,246	\$ 5,487,061

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Gift shop sales:			
Gross sales	\$ 54,287		\$ 54,287
Less: cost of sales	(37,243)		(37,243)
GROSS PROFIT	17,044	\$ 0	17,044
Shelter revenue	98,546		98,546
Direct public support	593,282	17,726	611,008
Bequests	78,210		78,210
Revenues from fundraising events and special projects	80,532		80,532
Governmental contracted services	41,437		41,437
Grants	10,715		10,715
In-kind contributions	26,002		26,002
Interest and dividends	3,029		3,029
Distribution of earnings from Marquette Community Foundation - Reider Fund	21,192		21,192
Change in value of beneficial interest in assets held by Marquette Community Foundation		(20,211)	(20,211)
Change in beneficial interest in Dixon Trust		(92,915)	(92,915)
Net investment return	72	(52,047)	(51,975)
Other	904		904
Net assets released from restrictions	49,725	(49,725)	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,020,690	(197,172)	823,518
EXPENSES			
Program services	761,545		761,545
Supporting services:			
Management and general	143,842		143,842
Fundraising	91,429		91,429
TOTAL SUPPORTING SERVICES	235,271	0	235,271
TOTAL EXPENSES	996,816	0	996,816
CHANGE IN NET ASSETS	23,874	(197,172)	(173,298)
Net assets at beginning of year	4,245,215	1,204,642	5,449,857
NET ASSETS AT END OF YEAR	\$ 4,269,089	\$ 1,007,470	\$ 5,276,559

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
REVENUES, GAINS, AND OTHER SUPPORT			
Gift shop sales:			
Gross sales	\$ 37,859		\$ 37,859
Less: cost of sales	(22,285)		(22,285)
GROSS PROFIT	15,574	\$ 0	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
In-kind contributions	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
EXPENSES AND LOSSES			
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 FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2022

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Personnel costs	\$ 392,382	\$ 88,672	\$ 32,462	\$ 513,516
Veterinary and medical supplies	92,478			92,478
Food for animals	10,271			10,271
Animal equipment	18,557			18,557
Utilities	38,137	2,119	2,118	42,374
Insurance	29,212	1,623	1,624	32,459
Custodial supplies/service	16,099	847		16,946
Office supplies	3,883	1,109	555	5,547
Repairs and maintenance	16,262			16,262
Travel/Vehicle expenses		3,824		3,824
Publication expenses	2,361	2,361	1,180	5,902
Community awareness	10,511			10,511
Conferences		1,077		1,077
Professional fees, including donated services		23,500		23,500
Fundraising events and projects			44,627	44,627
Dog license expense	228			228
Depreciation	126,776	7,043	7,043	140,862
Gift shop cost of sales	37,243			37,243
Volunteer program	749			749
Bank fees	3,639	1,820	1,820	7,279
Miscellaneous		9,847		9,847
TOTAL EXPENSES BY FUNCTION	798,788	143,842	91,429	1,034,059
Less expenses included with revenues on the statement of activities	(37,243)			(37,243)
TOTAL EXPENSES	<u>\$ 761,545</u>	<u>\$ 143,842</u>	<u>\$ 91,429</u>	<u>\$ 996,816</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA ANIMAL WELFARE SHELTER

Year Ended December 31, 2021

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Personnel costs	\$ 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
TOTAL EXPENSES BY FUNCTION	650,000	140,045	61,385	851,430
Less expenses included with revenues on the statement of activities	(22,285)			(22,285)
TOTAL EXPENSES	<u>\$ 627,715</u>	<u>\$ 140,045</u>	<u>\$ 61,385</u>	<u>\$ 829,145</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

UPPER PENINSULA ANIMAL WELFARE SHELTER

	Year Ended December 31	
	2022	2021
CASH FLOWS PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ (173,298)	\$ 1,264,418
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	140,862	140,347
PPP loan forgiveness		(108,600)
Bad debt loss		9,936
(Depreciation) Appreciation in fair value of endowment fund investments	57,862	(16,100)
Change in beneficial interest in assets held by the Marquette Community Foundation, net of distributions	25,009	(12,120)
Change in beneficial interest in Dixon Trust, net of distributions	127,475	(42,523)
(Increase) Decrease in:		
Accounts receivable	(875)	(2,365)
Inventory		67
Increase (Decrease) in:		
Accounts payable	6,400	(16,367)
Other current liabilities	83	13,509
NET CASH PROVIDED BY OPERATING ACTIVITIES	183,518	1,230,202
INVESTING ACTIVITIES		
Purchases of fixed assets	(20,618)	
Purchases of investment securities	(105,925)	(26,939)
Sales of investment securities	19,580	15,154
NET CASH USED BY INVESTING ACTIVITIES	(106,963)	(11,785)
FINANCING ACTIVITIES		
Proceeds from borrowing		54,300
Principal payments on loans		(1,030,357)
Proceeds from contributions restricted for long-term purposes	9,304	15,795
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	9,304	(960,262)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,859	258,155
Cash and cash equivalents at beginning of year	914,151	655,996
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,000,010	\$ 914,151

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 consists of checking accounts.

Receivables

Revenues earned but not received as of December 31 are recorded as accounts receivable on the statement of financial position. 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 statement of financial position date.

Pledges Receivable

Contributions are recognized when the donor makes an unconditional promise to give. 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 Dixon 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.

Beneficial Interest in Assets Held by the Marquette Community Foundation

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 in the statement of activities.

Land, Buildings, and Equipment

Fixed assets are obtained through purchase and donation. Purchased assets are recorded at cost and donated assets are recorded at fair market value at the date of donation. Fixed assets are depreciated using the straight-line method over the estimated useful lives 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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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

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.

Revenue Recognition

Revenue is recognized when earned. Revenue from fee for services and gift shop sales are recognized at the point in time the services are performed or goods are exchanged. Revenue from contributions is recognized at the point in time an unconditional promise to give or transfer of assets is made.

In-Kind Contributions

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.

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 pet food, supplies, and similar items.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

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

Use of Estimates

Preparation of the Shelter's financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. Actual results could differ from these estimates.

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.

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.

Subsequent Events

Subsequent events were evaluated through November 13, 2023, 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	
	2022	2021
Cash and cash equivalents	\$ 1,000,010	\$ 914,151
Accounts receivable	3,742	2,867
Pledges receivable, current portion	5,190	14,855
	<u>1,008,942</u>	<u>931,873</u>
Plus anticipated endowment distributions		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>\$ 1,033,942</u>	<u>\$ 961,873</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE C--CONCENTRATION OF CREDIT RISK

The Shelter had cash deposits in excess of federally-insured limits totaling \$707,700 and \$653,000 at December 31, 2022 and 2021, respectively. The deposits in excess of federally-insured limits are based on the Shelter's bank balances as of December 31, 2022 and 2021.

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	
	2022	2021
Receivable in less than one year	\$ 5,190	\$ 14,855
Receivable in two to five years	3,750	18,140
TOTAL UNCONDITIONAL PLEDGES RECEIVABLE	8,940	32,995
Less allowance for uncollectible pledges	(894)	(14,925)
Less discount to net present value (discounted at 3%)	(1,534)	(2,254)
UNCONDITIONAL PLEDGES RECEIVABLE, NET	6,512	15,816
Less current portion	(5,190)	(14,855)
LONG-TERM PLEDGES RECEIVABLE, NET	\$ 1,322	\$ 961

NOTE E--INVESTMENTS

Market value and unrealized appreciation on investments are as follows:

	December 31, 2022		
	Cost	Fair Value	Unrealized Appreciation
Cash	\$ 5,868	\$ 5,868	
Mutual funds	240,454	247,758	\$ 7,304
Common stocks	76,592	78,640	2,048
TOTAL INVESTMENTS	\$ 322,914	\$ 332,266	\$ 9,352

	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
TOTAL INVESTMENTS	\$ 231,533	\$ 303,783	\$ 72,250

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE E--INVESTMENTS--Continued

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 8,985	\$ 14,644
Realized gain	4,554	3,512
Unrealized gain (loss)	(62,417)	12,588
Investment management fees	<u>(3,097)</u>	<u>(2,859)</u>
 TOTAL INVESTMENT RETURN	 <u><u>\$ (51,975)</u></u>	 <u><u>\$ 27,885</u></u>

NOTE F--ENDOWMENT FUND

The Shelter's endowment fund includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE F--ENDOWMENT FUND--Continued

The Shelter's endowment fund net assets consist of the following:

	Board Designated	With Donor Restrictions	Total
<u>December 31, 2022:</u>			
Donor-restricted endowment			
Original gift amount		\$ 185,175	\$ 185,175
Accumulated investment gains		67,019	67,019
Board-designated endowment	\$ 80,072		80,072
TOTAL	\$ 80,072	\$ 252,194	\$ 332,266
<u>December 31, 2021:</u>			
Original gift amount		\$ 184,717	\$ 184,717
Accumulated investment gains		119,066	119,066
TOTAL	\$ 0	\$ 303,783	\$ 303,783

A reconciliation of the beginning and ending balance of the Shelter's endowment in total and by net asset class, consists of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at January 1, 2020		\$ 275,898	\$ 275,898
Investment return, net		27,885	27,885
Contributions			0
Appropriation of endowment assets for expenditure			0
Endowment net assets at December 31, 2021	\$ 0	303,783	303,783
Investment return, net	72	(52,047)	(51,975)
Contributions	80,000	458	80,458
Appropriation of endowment assets for expenditure			0
Endowment net assets at December 31, 2022	\$ 80,072	\$ 252,194	\$ 332,266

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE G--BENEFICIAL INTEREST IN DIXON 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 \$593,809 and \$721,284 as of December 31, 2022 and 2021, respectively.

NOTE H--FAIR VALUE MEASUREMENTS

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

Level 1: Unadjusted quoted prices in active markets for identical assets that are accessible at the measurement date.

Level 2: Quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; or inputs that are observable, either directly or indirectly.

Level 3: Inputs are unobservable, that is, the inputs are supported by little or no market activity.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE H--FAIR VALUE MEASUREMENTS--Continued

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.

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.

The following table presents information about the Shelter's investments and beneficial interests measured at fair value on a recurring basis at December 31, 2022:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 5,868	\$ 5,868		
Mutual funds	247,758	247,758		
Common stocks	78,640	78,640		
TOTAL INVESTMENT SECURITIES	<u>332,266</u>	<u>332,266</u>	<u>\$ 0</u>	<u>\$ 0</u>
Beneficial interests:				
Beneficial interest in assets held by the Marquette Community Foundation	107,677			107,677
Beneficial interest in Dixon Trust	593,809		593,809	
TOTAL BENEFICIAL INTERESTS	<u>701,486</u>	<u>0</u>	<u>593,809</u>	<u>107,677</u>
TOTAL	<u>\$1,033,752</u>	<u>\$ 332,266</u>	<u>\$ 593,809</u>	<u>\$ 107,677</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, 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 is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022 and 2021:

	<u>Assets Held by the Marquette Community Foundation</u>
Balance at January 1, 2020	\$ 120,566
Contributions	300
Investment return, net	15,602
Distributions	<u>(3,782)</u>
Balance at December 31, 2021	132,686
Contributions	250
Investment return, net	(20,461)
Distributions	<u>(4,798)</u>
Balance at December 31, 2022	<u>\$ 107,677</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE I--NET ASSET DESIGNATIONS AND RESTRICTIONS

Net asset designations and restrictions are as follows:

	December 31	
	2022	2021
Net assets without donor restrictions:		
Undesignated	\$4,189,017	\$4,245,215
Board-designated - endowment	80,072	
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>4,269,089</u>	<u>4,245,215</u>
Net assets with donor restrictions		
Subject to the passage of time or expenditure for specific purpose:		
Pledges receivable	6,512	15,816
Horse protection and education	47,278	31,073
Beneficial interest in Dixon Trust	593,809	721,284
TOTAL SUBJECT TO THE PASSAGE OF TIME OR EXPENDITURE FOR SPECIFIC PURPOSE	<u>647,599</u>	<u>768,173</u>
Perpetual in nature, subject to spending policies and appropriation:		
Beneficial interest in assets held by Marquette Community Foundation	107,677	132,686
Endowment fund	252,194	303,783
TOTAL SUBJECT TO THE SHELTER'S SPENDING POLICY AND APPROPRIATION	<u>359,871</u>	<u>436,469</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>1,007,470</u>	<u>1,204,642</u>
TOTAL NET ASSETS	<u>\$5,276,559</u>	<u>\$5,449,857</u>

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 J--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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA ANIMAL WELFARE SHELTER

NOTE K--IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following at December 31:

	2022	2021	Utilization in Programs/Activities
IT services	\$ 12,000	\$ 4,800	Management and General
Legal services	600	2,000	Management and General
Accounting services		10,680	Management and General
Executive director services		35,800	Management and General
Pet food and other supplies	13,402	17,540	Program
TOTAL	<u>\$ 26,002</u>	<u>\$ 70,820</u>	

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--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.