

Audited Financial Statements

Upper Peninsula Animal Welfare Shelter

*Years Ended December 31, 2023 and 2022
with Report of Independent Auditors*



ANDREWS HOOPER PAVLIK PLC

Upper Peninsula Animal Welfare Shelter

Audited Financial Statements

Years Ended December 31, 2023 and 2022

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Report of Independent Auditors

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 (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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 Upper Peninsula Animal Welfare Shelter as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Upper Peninsula Animal Welfare Shelter and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of the Upper Peninsula Animal Welfare Shelter as of December 31, 2022 were audited by other auditors whose report dated November 13, 2023 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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 Upper Peninsula Animal Welfare Shelter's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 GAAS 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 GAAS, 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 Upper Peninsula Animal Welfare 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 Upper Peninsula Animal Welfare 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.

Andrews Hooper Paulik PLC

Marquette, Michigan
October 31, 2024

Upper Peninsula Animal Welfare Shelter

Statements of Financial Position

	December 31	
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 619,603	\$ 1,000,010
Certificates of deposit	328,973	-
Accounts receivable	24,327	3,742
Promises to give, current portion	2,400	5,190
Inventory	6,171	-
Total current assets	981,474	1,008,942
Other assets:		
Promises to give, non-current, net	1,350	1,322
Investments	372,451	332,266
Beneficial interest in assets held by Marquette Community Foundation	114,272	107,677
Beneficial interest in Dixon Trust	612,673	593,809
Total other assets	1,100,746	1,035,074
Land, building, and equipment		
Land	20,587	20,587
Buildings and improvements	3,653,333	3,653,333
Vehicles	32,649	23,149
Office and kennel furniture and equipment	106,252	100,080
Total land, building, and equipment	3,812,821	3,797,149
Less accumulated depreciation	661,356	520,919
Land, building, and equipment, net	3,151,465	3,276,230
Total assets	\$ 5,233,685	\$ 5,320,246
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 12,438	\$ 15,923
Credit card payable	2,927	-
Accrued payroll and payroll taxes	14,460	14,695
Accrued benefits	18,552	10,193
Sales tax payable	623	2,876
Total current liabilities	49,000	43,687
Net assets without donor restrictions:		
Undesignated	4,027,296	4,189,017
Board designated – endowment	90,574	80,072
Total net assets without donor restrictions	4,117,870	4,269,089
Net assets with donor restrictions	1,066,815	1,007,470
Total net assets	5,184,685	5,276,559
Total liabilities and net assets	\$ 5,233,685	\$ 5,320,246

Upper Peninsula Animal Welfare Shelter

Statements of Activities

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support						
Gift shop sales:						
Gross sales	\$ 38,675	\$ -	\$ 38,675	\$ 54,287	\$ -	\$ 54,287
Less, cost of sales	(25,132)	-	(25,132)	(37,243)	-	(37,243)
Gross profit	13,543	-	13,543	17,044	-	17,044
Shelter revenue	95,831	-	95,831	98,546	-	98,546
Direct public support	311,653	20,384	332,037	593,282	17,726	611,008
Bequests	50,000	-	50,000	78,210	-	78,210
Revenues from fundraising events and special projects	92,799	-	92,799	80,532	-	80,532
Governmental contracted services	69,230	-	69,230	41,437	-	41,437
Grants	885	-	885	10,715	-	10,715
In-kind contributions	23,194	-	23,194	26,002	-	26,002
Interest and dividends	25,017	-	25,017	3,029	-	3,029
Distributions of earnings from Marquette Community Foundation – Reider Fund	22,039	-	22,039	21,192	-	21,192
Change in value of beneficial interest in assets held by Marquette Community Foundation	-	11,562	11,562	-	(20,211)	(20,211)
Change in beneficial interest in Dixon Trust	-	52,911	52,911	-	(92,915)	(92,915)
Net investment return	9,424	29,683	39,107	72	(52,047)	(51,975)
Other	8,723	-	8,723	904	-	904
Net assets released from restrictions	55,195	(55,195)	-	49,725	(49,725)	-
Total revenues, gains, and other support	777,533	59,345	836,878	1,020,690	(197,172)	823,518
Expenses						
Program services	823,281	-	823,281	761,545	-	761,545
Support services:						
Management and general	58,451	-	58,451	143,842	-	143,842
Fundraising	47,020	-	47,020	91,429	-	91,429
Total support services	105,471	-	105,471	235,271	-	235,271
Total expenses	928,752	-	928,752	996,816	-	996,816
Change in net assets	(151,219)	59,345	(91,874)	23,874	(197,172)	(173,298)
Net assets – beginning of year	4,269,089	1,007,470	5,276,559	4,245,215	1,204,642	5,449,857
Net assets – end of year	\$ 4,117,870	\$ 1,066,815	\$ 5,184,685	\$ 4,269,089	\$ 1,007,470	\$ 5,276,559

See accompanying notes.

Upper Peninsula Animal Welfare Shelter

Statements of Functional Expenses

	Year Ended December 31, 2023				Year Ended December 31, 2022			
	Program Services	Support Services		Total Expenses	Program Services	Support Services		Total Expenses
		Management and General	Fundraising			Management and General	Fundraising	
Personnel costs	\$ 438,624	\$ 4,706	\$ 3,528	\$ 446,858	\$ 392,382	\$ 88,672	\$ 32,462	\$ 513,516
Veterinary and medical supplies	104,273	-	-	104,273	92,478	-	-	92,478
Food for animals	12,840	-	-	12,840	10,271	-	-	10,271
Animal equipment	7,818	-	-	7,818	18,557	-	-	18,557
Utilities	35,913	1,995	1,995	39,903	38,137	2,119	2,118	42,374
Insurance	31,679	1,761	1,761	35,201	29,212	1,623	1,624	32,459
Custodial supplies/services	13,517	711	-	14,228	16,099	847	-	16,946
Office supplies	4,393	1,255	629	6,277	3,883	1,109	555	5,547
Repairs and maintenance	15,053	-	-	15,053	16,262	-	-	16,262
Travel/vehicle expenses	-	2,849	-	2,849	-	3,824	-	3,824
Publication expenses	8,031	8,031	4,016	20,078	2,361	2,361	1,180	5,902
Community awareness	8,124	-	-	8,124	10,511	-	-	10,511
Conferences	-	1,717	-	1,717	-	1,077	-	1,077
Professional fees, including donated services	-	26,399	-	26,399	-	23,500	-	23,500
Fundraising events and projects	-	-	26,064	26,064	-	-	44,627	44,627
Dog license expense	250	-	-	250	228	-	-	228
Depreciation	126,393	7,022	7,022	140,437	126,776	7,043	7,043	140,862
Gift shop cost of sales	25,132	-	-	25,132	37,243	-	-	37,243
Volunteer program	955	-	-	955	749	-	-	749
Bank fees	2,585	1,292	1,292	5,169	3,639	1,820	1,820	7,279
Miscellaneous	12,833	713	713	14,259	-	9,847	-	9,847
Total expenses by function	848,413	58,451	47,020	953,884	798,788	143,842	91,429	1,034,059
Less expenses included with revenues on the statement of activities	(25,132)	-	-	(25,132)	(37,243)	-	-	(37,243)
Total expenses	\$ 823,281	\$ 58,451	\$ 47,020	\$ 928,752	\$ 761,545	\$ 143,842	\$ 91,429	\$ 996,816

See accompanying notes.

Upper Peninsula Animal Welfare Shelter

Statements of Cash Flows

	Year Ended December 31	
	2023	2022
Operating activities		
Changes in net assets	\$ (91,874)	\$ (173,298)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	140,437	140,862
(Appreciation) depreciation in fair value of endowment fund investments	(31,880)	57,862
Change in beneficial interest in assets held by the Marquette Community Foundation, net of distributions	(6,595)	25,009
Change in beneficial interest in Dixon Trust, net of distributions	(18,864)	127,475
Change in operating assets and liabilities:		
Accounts receivable	(20,585)	(875)
Inventory	(6,171)	-
Accounts payable	(3,485)	6,400
Other current liabilities	8,798	83
Net cash from operating activities	(30,219)	183,518
Investing activities		
Purchase of fixed assets	(15,672)	(20,618)
Purchase of investment securities	(27,500)	(105,925)
Sale of investment securities	19,195	19,580
Purchase of certificates of deposit	(328,973)	-
Net cash from investing activities	(352,950)	(106,963)
Financing activities		
Proceeds from contributions restricted for long-term purposes	2,762	9,304
Net cash from financing activities	2,762	9,304
Net change in cash and cash equivalents	(380,407)	85,859
Cash and cash equivalents – beginning of year	1,000,010	914,151
Cash and cash equivalents – end of year	\$ 619,603	\$ 1,000,010

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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 and in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents consist of all cash on hand, checking accounts, savings accounts, money market accounts, and all highly liquid financial instruments with original maturities of three months or less, which are not held for long-term purposes.

Receivables

Revenues earned but not received as of December 31 are recorded as accounts receivable on the statement of financial position. Accounts receivable are stated at amortized cost net of the allowance for credit losses. The allowance for credit losses is an estimate of amounts that may be uncollectible. The Shelter determines the need for an allowance based on an evaluation of the accounts receivable, historical collection experience, and expectations about current and future economic conditions. In the opinion of management, all accounts receivable are considered fully collectible; therefore, no allowance for credit losses have been established.

Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give 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 promises to give based on management's analysis of the pledges receivable outstanding.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of merchandise for resale and operating supplies. The inventory is valued at the lower of cost or net realizable value on a moving average basis.

Investments

Investments consist of cash equivalents and mutual funds. Cash equivalents are carried at cost. Investments in mutual funds are carried at fair value. Realized and unrealized gains and losses are included in the statements of activities.

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.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Land, Building, 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.

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.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue is recognized when earned and in an amount that reflects the consideration the Shelter expects to be entitled to receive in exchange for those services. Revenue from contributions are recognized when cash, securities, other assets, or an unconditional promise to give is received. Revenue from grants is recognized when qualifying expenses are incurred. Revenue from fee for service and merchandise sales are recognized at the point in time the services are performed or goods are exchanged. These revenues do not include material amounts of variable consideration or financing components.

The following economic factors affect the nature, amount, timing, and uncertainty of the Shelter's revenue and cash flows as indicated:

- Economic trends: Services to all customers correlate with economic cycles and are cyclical in nature based on personal discretion. Overall revenue from attendance at the Shelter's programs and merchandise sales can be dependent on individuals' disposable income.
- Geographical location of customers: Services are to customers located primarily in the area that includes Marquette and the surrounding areas; therefore, revenue is correlated to the local economy.
- Not-for-profit industry: Contributions and funding to not-for-profit organizations fluctuate based on availability of resources and support in the community.

Revenue from contracts with customers includes gift shop sales, pet adoption and redeemed animal fees, and governmental contracted services. The amount of revenue from contracts with customers totaled \$203,736 for the year ended December 31, 2023 and \$194,270 for the year ended December 31, 2022.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

In-Kind Contributions

Donated goods and services are recorded at fair market value at the date of donation based on current rates for similar items at the time of donation. The Shelter does not sell donated items. In addition, volunteers contribute significant amounts of time to program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria prescribed by U.S. GAAP.

In-kind contributions consisted of the following for the years ended December 31:

	2023	2022	Utilization in Programs/Activities
IT services	\$ 2,400	\$ 12,000	Management and General
Legal services	1,350	600	Management and General
Pet food and other supplies	19,444	13,402	Program
Total	<u>\$ 23,194</u>	<u>\$ 26,002</u>	

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service benefited. Expenses related to more than one function are allocated based on various bases, as determined by management.

The expenses that have been allocated include personnel costs, utilities, insurance, custodial supplies/services, office supplies, publication expenses, depreciation, and miscellaneous which are primarily allocated based on estimates of time and effort.

Accounting Estimates

Preparation of the Shelter's financial statements in conformity with U.S. GAAP requires the use of management's estimates. Actual results could differ from these estimates.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income Taxes

The Shelter is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Shelter's tax-exempt purpose is subject to taxation as unrelated business income.

Generally, tax years from 2020 through the current tax year remain open to examination. Management does not believe that the results of any examination of these open years would have a material adverse effect on the Shelter.

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

Management has evaluated subsequent events for potential recognition and disclosure in the financial statements through October 31, 2024, which is the date the financial statements were available to be issued.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

2. Liquidity and Availability of Financial Assets

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:

	2023	2022
Cash and cash equivalents	\$ 619,603	\$ 1,000,010
Certificates of deposit	328,973	-
Accounts receivable	24,327	3,742
Pledges receivable, current portion	2,400	5,190
	975,303	1,008,942
Less financial assets with donor restrictions	(56,643)	(52,468)
Plus anticipated distribution from Dixon Trust	25,000	25,000
Financial assets available to meet cash needs for expenditures within one year	\$ 943,660	\$ 981,474

3. Concentration of Credit Risk

The Shelter had cash deposits in excess of federally insured limits totaling \$258,219 as of December 31, 2023 and \$707,700 as of December 31, 2022. The deposits in excess of federally insured limits are based on the Shelter's bank balances as of December 31, 2023 and 2022.

4. Promises to Give

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. Promises to give are as follows:

	2023	2022
Receivable in less than one year	\$ 2,400	\$ 5,190
Receivable in two to five years	1,350	3,750
Total unconditional promises to give	3,750	8,940
Less allowance for uncollectible promises to give	-	(894)
Less discount to net present value (discounted at 3%)	-	(1,534)
Unconditional promises to give, net	3,750	6,512
Less current portion	(2,400)	(5,190)
Long-term promises to give, net	\$ 1,350	\$ 1,322

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

5. Investments

Market value and unrealized appreciation on investments are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
December 31, 2023			
Cash equivalents, at cost	\$ 2,849	\$ 2,849	\$ -
Mutual funds	253,337	284,414	31,077
Common stocks	76,592	85,188	8,596
Total investments	<u>\$ 332,778</u>	<u>\$ 372,451</u>	<u>\$ 39,673</u>
December 31, 2022			
Cash equivalents, at cost	\$ 5,868	\$ 5,868	\$ -
Mutual funds	240,454	247,758	7,304
Common stocks	76,592	78,640	2,048
Total investments	<u>\$ 322,914</u>	<u>\$ 332,266</u>	<u>\$ 9,352</u>

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

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 10,675	\$ 8,985
Realized gain	1,312	4,554
Unrealized gain (loss)	30,568	(62,417)
Investment management fees	(3,448)	(3,097)
Total investment return	<u>\$ 39,107</u>	<u>\$ (51,975)</u>

6. 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.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

6. Endowment Fund (continued)

In accordance with UPMIFA, the Shelter considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Shelter and the endowment fund
- General economic factors
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments
- Other resources of the Shelter
- The investment policy of the Shelter

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 Shelter uses the services of a third-party investment manager.

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:

	Board Designated	With Donor Restrictions	Total
December 31, 2023			
Donor-restricted endowment:			
Original gift amount	\$ -	\$ 185,175	\$ 185,175
Accumulated investment gains	-	96,702	96,702
Board-designated endowment	90,574	-	90,574
Total investments	\$ 90,574	\$ 281,877	\$ 372,451
December 31, 2022			
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 investments	\$ 80,072	\$ 252,194	\$ 332,266

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

6. Endowment Fund (continued)

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, 2021	\$ -	\$ 303,783	\$ 303,783
Investment return, net	72	(52,047)	(51,975)
Contributions	80,000	458	80,458
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets at December 31, 2022	\$ 80,072	\$ 252,194	\$ 332,266
Investment return, net	9,424	29,683	39,107
Contributions	1,078	-	1,078
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets at December 31, 2023	\$ 90,574	\$ 281,877	\$ 372,451

7. 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. Distribution from the Trust totaled \$34,048 for the year ended December 31, 2023 and \$37,585 for the year ended December 31, 2022. The fair value of the Trust assets totaled \$612,673 as of December 31, 2023 and \$593,809 as of December 31, 2022.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

8. 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.

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.

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

8. 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 as of December 31, 2023:

	Fair Value	Level 1	Level 2	Level 3
Investments:				
Short-term investments	\$ 2,849	\$ 2,849	\$ -	\$ -
Mutual funds	284,414	284,414	-	-
Common stocks	85,188	85,188	-	-
Total investments	372,451	372,451	-	-
Beneficial interests:				
Assets held by the Marquette				
Community Foundation	114,272	-	-	114,272
Dixon Trust	612,673	-	612,673	-
Total beneficial interests	726,945	-	612,673	114,272
Total	\$ 1,099,396	\$ 372,451	\$ 612,673	\$ 114,272

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:

	Fair Value	Level 1	Level 2	Level 3
Investments:				
Short-term investments	\$ 5,868	\$ 5,868	\$ -	\$ -
Mutual funds	247,758	247,758	-	-
Common stocks	78,640	78,640	-	-
Total investments	332,266	332,266	-	-
Beneficial interests:				
Assets held by the Marquette				
Community Foundation	107,677	-	-	107,677
Dixon Trust	593,809	-	593,809	-
Total beneficial interests	701,486	-	593,809	107,677
Total	\$ 1,033,752	\$ 332,266	\$ 593,809	\$ 107,677

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

8. Fair Value Measurements (continued)

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, 2023 and 2022:

	Assets Held by the Marquette Community Foundation
Balance at January 1, 2022	\$ 132,686
Contributions	250
Investment return, net	(20,461)
Distributions	(4,798)
	<hr/>
Balance at December 31, 2022	107,677
Contributions	-
Investment return, net	11,562
Distributions	(4,967)
	<hr/>
Balance at December 31, 2023	\$ 114,272

Upper Peninsula Animal Welfare Shelter

Notes to Financial Statements

December 31, 2023

9. Net Asset Designations and Restrictions

Net asset designations and restrictions are as follows:

	December 31	
	2023	2022
Net assets without donor restrictions:		
Undesignated	\$ 4,027,296	\$ 4,189,017
Board designated – endowment	90,574	80,072
Total net assets without donor restrictions	<u>4,117,870</u>	<u>4,269,089</u>
Net assets with donor restrictions subject to the passage of time or expenditure for specific purpose:		
Pledges receivable	3,750	6,512
Horse protection and education	54,243	47,278
Beneficial interest in Dixon Trust	612,673	593,809
Total subject to the passage of time or expenditure for a specific purpose	<u>670,666</u>	<u>647,599</u>
Perpetual in nature, subject to spending policies and appropriation:		
Beneficial interest in assets held by Marquette Community Foundation	114,272	107,677
Endowment fund	281,877	252,194
Total subject to spending policies and appropriation	<u>396,149</u>	<u>359,871</u>
Total net assets with donor restrictions	<u>1,066,815</u>	<u>1,007,470</u>
Total net assets	<u>\$ 5,184,685</u>	<u>\$ 5,276,559</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.

10. 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.