



PAWS WITH A CAUSE

WAYLAND, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020



Vredeveld Haefner LLC
CPAs and Consultants

PAWS WITH A CAUSE

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to the Financial Statements	9-16



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INDEPENDENT AUDITORS' REPORT

November 29, 2021

Board of Directors
Paws With A Cause
Wayland, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Paws With A Cause (the Organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2021, 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.

Other Matters

2020 Financial Statements

The financial statements of Paws With A Cause as of September 30, 2020, were audited by predecessor auditors. Their report, dated January 8, 2021, expressed an unmodified opinion on those financial statements.

Vredeveld Haefner LLC

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PAWS WITH A CAUSE
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,451,551	\$ 834,610
Investments	2,920,643	1,859,164
Accounts receivable	314	-
Pledges receivable, net	42,526	60,735
Inventories	23,898	44,468
Prepaid expenses	<u>60,510</u>	<u>30,738</u>
Total current assets	<u>4,499,442</u>	<u>2,829,715</u>
Noncurrent assets		
Property and equipment		
Construction in progress	21,723	-
Land, buildings and improvements	4,393,677	4,398,217
Equipment	653,052	626,616
Vehicles	<u>351,942</u>	<u>271,196</u>
Total property and equipment	5,420,394	5,296,029
Less accumulated depreciation	<u>4,056,892</u>	<u>3,838,308</u>
Net property and equipment	1,363,502	1,457,721
Investments	<u>906,434</u>	<u>896,257</u>
Total noncurrent assets	<u>2,269,936</u>	<u>2,353,978</u>
Total assets	<u><u>\$ 6,769,378</u></u>	<u><u>\$ 5,183,693</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 44,510	\$ 26,042
Accrued payroll	<u>73,177</u>	<u>32,983</u>
Total current liabilities	117,687	59,025
Noncurrent liabilities		
Note payable	<u>-</u>	<u>573,737</u>
Total liabilities	<u>117,687</u>	<u>632,762</u>
Net assets		
Without donor restrictions	5,588,357	3,501,301
With donor restrictions	<u>1,063,334</u>	<u>1,049,630</u>
Total net assets	<u>6,651,691</u>	<u>4,550,931</u>
Total liabilities and net assets	<u><u>\$ 6,769,378</u></u>	<u><u>\$ 5,183,693</u></u>

The accompanying notes are an integral part of these financial statements.

PAWS WITH A CAUSE

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions	\$ 4,444,695	\$ 151,878	\$ 4,596,573
United Way funding	322,157	-	322,157
Independent Charities of America funding	45,108	-	45,108
Donated goods	163,254	-	163,254
Donated services	4,500	-	4,500
Charges for services			
Direct placements	122,750	-	122,750
Client application fees	15,075	-	15,075
Special events	94,537	-	94,537
Investment income	114,990	-	114,990
Unrealized gains on investments	407,829	-	407,829
Miscellaneous	72,471	-	72,471
Net assets released from restrictions			
Satisfaction of time restrictions	94,199	(94,199)	-
Satisfaction of purpose restrictions	43,975	(43,975)	-
Total revenue and support	<u>5,945,540</u>	<u>13,704</u>	<u>5,959,244</u>
Expenses			
Program services			
Training and services	3,477,267	-	3,477,267
General education	52,170	-	52,170
Total program services	<u>3,529,437</u>	<u>-</u>	<u>3,529,437</u>
Supporting services			
Management and general	282,397	-	282,397
Resource development	620,387	-	620,387
Total supporting services	<u>902,784</u>	<u>-</u>	<u>902,784</u>
Total expenses	<u>4,432,221</u>	<u>-</u>	<u>4,432,221</u>
Change in net assets before non-recurring item	<u>1,513,319</u>	<u>13,704</u>	<u>1,527,023</u>
Non-recurring item			
Forgiveness of PPP loan	573,737	-	573,737
Change in net assets	<u>2,087,056</u>	<u>13,704</u>	<u>2,100,760</u>
Net assets, beginning of year	<u>3,501,301</u>	<u>1,049,630</u>	<u>4,550,931</u>
Net assets, end of year	<u>\$ 5,588,357</u>	<u>\$ 1,063,334</u>	<u>\$ 6,651,691</u>

The accompanying notes are an integral part of these financial statements.

2020		
<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
<u>Restrictions</u>	<u>Restrictions</u>	
\$ 2,716,899	\$ 180,082	\$ 2,896,981
483,998	-	483,998
55,896	-	55,896
91,368	-	91,368
-	-	-
78,616	-	78,616
9,450	-	9,450
61,577	-	61,577
106,327	-	106,327
97,092	-	97,092
77,716	-	77,716
156,369	(156,369)	-
80,359	(80,359)	-
<u>4,015,667</u>	<u>(56,646)</u>	<u>3,959,021</u>
3,518,835	-	3,518,835
86,502	-	86,502
<u>3,605,337</u>	<u>-</u>	<u>3,605,337</u>
302,561	-	302,561
450,988	-	450,988
<u>753,549</u>	<u>-</u>	<u>753,549</u>
<u>4,358,886</u>	<u>-</u>	<u>4,358,886</u>
<u>(343,219)</u>	<u>(56,646)</u>	<u>(399,865)</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>(343,219)</u>	<u>(56,646)</u>	<u>(399,865)</u>
<u>3,844,520</u>	<u>1,106,276</u>	<u>4,950,796</u>
<u>\$ 3,501,301</u>	<u>\$ 1,049,630</u>	<u>\$ 4,550,931</u>

PAWS WITH A CAUSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Program Services			Supporting Services			
	<u>Training and Services</u>	<u>General Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total Expenses</u>
Salaries and wages	\$ 1,871,297	\$ 27,357	\$ 1,898,654	\$ 111,594	\$ 230,960	\$ 342,554	\$ 2,241,208
Employee benefits	241,276	2,312	243,588	48,214	37,682	85,896	329,484
Payroll taxes	129,854	2,616	132,470	14,908	12,723	27,631	160,101
Training center and kennels	233,641	-	233,641	-	-	-	233,641
Outside services	124,034	2,481	126,515	16,016	193,990	210,006	336,521
Software technology	51,800	1,045	52,845	5,704	8,962	14,666	67,511
Contract labor	194,775	49	194,824	-	-	-	194,824
Professional fees	85,618	855	86,473	16,745	12,337	29,082	115,555
Utilities	67,649	1,385	69,034	11,696	7,085	18,781	87,815
Rent	16,797	-	16,797	-	-	-	16,797
Maintenance	12,989	120	13,109	1,642	1,307	2,949	16,058
Printing and advertising	13,176	10,981	24,157	1,939	34,222	36,161	60,318
Special events	15	-	15	-	21,114	21,114	21,129
Travel and meals	34,584	200	34,784	2,120	4,102	6,222	41,006
Supplies	38,504	288	38,792	4,156	3,085	7,241	46,033
Telephone	23,896	344	24,240	4,903	2,928	7,831	32,071
Equipment	45,823	249	46,072	1,625	1,133	2,758	48,830
Insurance	46,069	742	46,811	5,566	4,287	9,853	56,664
Postage	23,080	432	23,512	2,250	18,449	20,699	44,211
Membership and dues	7,622	71	7,693	542	314	856	8,549
Veterinary	16,820	-	16,820	-	-	-	16,820
Miscellaneous	26,142	85	26,227	4,329	3,395	7,724	33,951
Depreciation	171,806	558	172,364	28,448	22,312	50,760	223,124
Total expenses	<u>\$ 3,477,267</u>	<u>\$ 52,170</u>	<u>\$ 3,529,437</u>	<u>\$ 282,397</u>	<u>\$ 620,387</u>	<u>\$ 902,784</u>	<u>\$ 4,432,221</u>

The accompanying notes are an integral part of these financial statements.

PAWS WITH A CAUSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Program Services			Supporting Services			
	<u>Training and Services</u>	<u>General Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total Expenses</u>
Salaries and wages	\$ 1,795,711	\$ 55,478	\$ 1,851,189	\$ 136,063	\$ 260,426	\$ 396,489	\$ 2,247,678
Training center and kennels	351,021	-	351,021	-	597	597	351,618
Outside services	183,586	4,782	188,368	22,855	59,036	81,891	270,259
Software technology	54,409	1,068	55,477	5,481	5,568	11,049	66,526
Employee insurance	278,844	7,873	286,717	47,295	30,642	77,937	364,654
Payroll taxes	139,016	4,101	143,117	19,392	13,032	32,424	175,541
Contract labor	124,373	84	124,457	-	-	-	124,457
Professional fees	47,279	1,051	48,330	7,475	4,087	11,562	59,892
Utilities	76,122	638	76,760	6,896	4,579	11,475	88,235
Rent	17,465	-	17,465	-	-	-	17,465
Maintenance	10,220	206	10,426	1,549	1,092	2,641	13,067
Printing and advertising	10,752	147	10,899	1,196	28,487	29,683	40,582
Special events	-	-	-	-	2,587	2,587	2,587
Meals and lodging	31,508	858	32,366	2,909	2,467	5,376	37,742
Supplies	34,066	534	34,600	7,370	1,805	9,175	43,775
Telephone	24,051	696	24,747	3,943	2,491	6,434	31,181
Equipment	32,273	732	33,005	3,324	1,852	5,176	38,181
Insurance	40,241	1,191	41,432	5,905	4,206	10,111	51,543
Postage	18,251	391	18,642	1,971	15,363	17,334	35,976
Membership and dues	7,942	155	8,097	1,456	376	1,832	9,929
Veterinary	29,974	-	29,974	-	-	-	29,974
Miscellaneous	16,745	3,566	20,311	11,520	1,913	13,433	33,744
Depreciation	194,986	2,951	197,937	15,961	10,382	26,343	224,280
Total expenses	\$ 3,518,835	\$ 86,502	\$ 3,605,337	\$ 302,561	\$ 450,988	\$ 753,549	\$ 4,358,886

The accompanying notes are an integral part of these financial statements.

PAWS WITH A CAUSE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 2,100,760	\$ (399,865)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	223,124	224,280
Forgiveness of PPP loan	(573,737)	-
Unrealized (gain) loss on investments	407,829	(97,092)
Donated vehicle received	(15,000)	-
Donated securities received	(81,115)	(4,093)
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	(314)	-
Pledges receivable	18,209	33,354
Inventories	20,570	(18,544)
Prepaid expenses	(29,772)	36,521
Accounts payable	18,468	(40,680)
Accrued expenses	40,194	(42,201)
Contributions restricted for endowment	(10,177)	(5,000)
Net cash provided by (used in) operating activities	<u>2,119,039</u>	<u>(313,320)</u>
Cash flows from investing activities		
Purchases of investments	(2,079,193)	(272,892)
Proceeds from sale of investments	680,824	306,580
Purchases of property and equipment	(113,906)	(41,301)
Net cash provided by (used in) investing activities	<u>(1,512,275)</u>	<u>(7,613)</u>
Cash flows from financing activities		
Proceeds from issuance of note payable	-	573,737
Collections of endowment support	10,177	5,000
Net cash provided by (used in) financing activities	<u>10,177</u>	<u>578,737</u>
Net increase (decrease) in cash and cash equivalents	616,941	257,804
Cash and cash equivalents, beginning of year	<u>834,610</u>	<u>576,806</u>
Cash and cash equivalents, end of year	<u>\$ 1,451,551</u>	<u>\$ 834,610</u>

The accompanying notes are an integral part of these financial statements.

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Paws With A Cause (the Organization) is a not-for-profit corporation organized in 1979 as “Ears for the Deaf”. The Organization raises puppies and custom-trains assistance dogs to create opportunities for people with disabilities and communities to live with dignity, companionship and confidence and increases awareness of the rights and roles of assistance dog teams through education and advocacy.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all demand and time deposits with an original maturity of 90 days or less and cash on hand to be cash and cash equivalents. The Organization’s deposits are secured through FDIC insurance. At times during the year, deposits may exceed the maximum FDIC insurance coverage. Management believes the Organization is not exposed to any significant interest rate or other risk on these deposits.

Investments

Investments are composed of funds held by a bank. Net investment income and gains and losses are included as changes in net assets with donor restrictions in the accompanying statement of activities. Income generated from the Endowment fund is expendable for general operations. Income generated from the Westerman fund is to be accumulated until it can cover the cost of training one dog.

The primary investment objective of excess unrestricted funds is to preserve and protect its assets by earning a total return. The Organization utilizes an investment advisor to manage the portfolio in accordance with the following acceptable ranges:

United States stocks	25 – 45%
Foreign stocks	10 – 20%
Fixed income – medium to high quality (BBB or better) with short/intermediate maturity	40 – 55%

The primary investment objective of long-term investments for the endowment, Westerman and California Hearing Dog accounts is to preserve and protect its assets by earning a total return. The Organization utilizes an investment advisor to manage the portfolio in accordance with the following acceptable ranges:

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

United States stocks	40 – 50%
Foreign stocks	10 – 20%
Bonds – medium to high quality (BBB or better) with short/intermediate maturity	35 – 45%

Pledges Receivable

Pledges receivable are stated at their estimated net realizable value which is the amount management expects to collect from outstanding balances. The Organization recorded an allowance of \$11,992 and \$11,880 at September 30, 2021 and 2020, respectively, which is based on information from various donor pass-through organizations, as well as historical experience, and is estimated to cover United Way campaign costs as well as potential losses inherent in the receivables portfolio.

Unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized as revenues when the conditions on which they depend are substantially met. For the years ended September 30, 2021 and 2020, the Organization received only unconditional promises to give.

Inventory

Inventory is stated at cost on a first-in, first-out basis and consists of merchandise available for retail sale.

The Organization adds value to the dogs in its program through customized training and specialized veterinary care. The customized training spans approximately 12 months prior to a dog being placed with a client. After certification, the client assumes ownership of the dog. It is the Organization's policy to expense dog training and veterinary care as the costs are incurred and, accordingly, the dogs are not included in the valuation of inventory.

Property and Equipment and Depreciation

Property and equipment are capitalized at cost or, if donated, at the approximate fair value at the date of donation. Acquisitions of property or equipment in excess of \$2,000 are capitalized while ordinary repairs are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from 3 to 30 years.

Contributions and Foundation Grants Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or with donor restrictions depending on the existence of any donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by donor restriction or by law. The Organization has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Advertising

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended September 30, 2021 and 2020 was \$60,318 and \$40,582, respectively.

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

Functional Allocation of Expenses

Expenses identified as applying to a specific program or supporting service are recorded in the appropriate service area as incurred. Expenses not directly attributable to a program or supporting service are allocated based on percentages formulated through monthly time studies of each employee.

Donations

Donated materials are reflected as contributions in the accompanying statements at their estimated fair market value at the date of receipt. Contributions of donated services that create or enhance non-financial assets, or that require specialized skills are provided by the individuals possessing those skills and would typically need to be purchased if not provided by the donation, are recorded at fair value at the date the services are performed.

A significant number of volunteers have donated substantial amounts of their time to program services however various volunteer services have not been recorded in the financial statements as there is no objective basis upon which to measure the value of such services.

Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Generally, income tax returns filed within the last three years remain open and subject to audit by regulatory authorities. The Organization concludes that there are no significant uncertain tax positions requiring recognition in the financial statements.

Subsequent Events

In preparing these financial statements, management has evaluated significant events and transactions for potential recognition or disclosure subsequent to September 30, 2021 and through the auditors' report date, the date the financial statements were available to be issued. No such events or transactions were identified.

Paycheck Protection Program Loan

The Organization secured a loan through the Paycheck Protection Program which was established to provide COVID relief. The loan amounted to \$573,737 and was forgiven based on meeting the requirements of the program. The loan was recognized as income during the year ended September 31, 2021.

Reclassifications

Certain amounts reported in the 2020 financial statements have been reclassified to conform with the 2021 presentation.

2. LIQUIDITY AND AVAILABILITY

The Organization is supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities with donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. As more fully described in Note 5, the Organization also has a line of credit

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

available in the amount of \$1,000,000 which it could draw upon in the event of an unanticipated liquidity need.

The Organization's financial assets at year-end are as follows:

Current financial assets at September 30, 2021	\$4,415,034
Less those unavailable for general expenditure within one year due to donor specified time or purpose restrictions	<u>156,900</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$4,258,134</u>

3. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's investments measured at fair value:

September 30, 2021				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at fair value:				
Mutual funds	\$3,407,137	\$ -	\$ -	\$3,407,137
Stocks and exchange traded funds	81,412			81,412
Market linked certificates of deposit	338,528	-	-	338,528
	<u>\$3,827,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,827,077</u>
September 30, 2020				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at fair value:				
Mutual funds	\$2,335,136	\$ -	\$ -	\$2,355,136
Stocks and exchange traded funds	66,668			66,668
Market linked certificates of deposit	353,617	-	-	353,617
	<u>\$2,755,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,755,421</u>

Fair value is defined by generally accepted accounting principles as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

In addition to defining fair value, accounting standards establish a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - inputs are unadjusted quoted market prices in active markets for identical assets or liabilities in active markets that the Organization has the ability to access.

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

Level 2 - inputs to the valuation methodology include:

- a. quoted prices for similar assets and liabilities in active markets
- b. quoted prices for identical or similar assets and liabilities in markets that are not active
- c. other inputs that are observable or can be corroborated by observable market data
- d. inputs that are derived from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - inputs are generally unobservable and significant to the fair value measurement. Such inputs typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

4. BENEFICIAL INTEREST

The Organization is the beneficiary of an estate which holds real estate. The real estate has been appraised with a fair market value of \$400,000 - \$425,000. The estate will sell the property and distribute the net proceeds to the Organization. Since the date and amount are not yet determined, the financial benefit to the Organization has not been recorded in the financial statements.

5. LINE OF CREDIT

The Organization has available a line of credit with maximum borrowings up to \$1,000,000 with interest charged at prime plus 1% (effective rate of 4.25% at September 30, 2021). There were no borrowings on the line of credit as of September 30, 2021 or 2020.

6. LEASES

The Organization entered into a 60-month lease for office space in Royal Oak, Michigan that commenced on December 1, 2019. The lease calls for monthly rental payments of \$1,307 for the first year, \$1,404 for years two and three, \$1,501 for the fourth year and \$1,549 for the fifth year. Total rental expense under the agreement amounted to \$16,797 and \$17,465 for the years ended September 30, 2021 and 2020, respectively.

The following is a schedule of annual future minimum lease payments required under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2021:

<u>Year</u>	<u>Non-Cancelable Operating Leases</u>
2022	\$16,849
2023	17,817
2024	18,495
2025	3,099
Total minimum payments due	<u>\$56,260</u>

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

7. ENDOWMENT FUNDS

The Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and accordingly classifies amounts in its donor-restricted endowment as net assets with donor restrictions because those net assets are restricted in perpetuity. Investment earnings on those net assets are time restricted until appropriated for expenditure, at which time the amount is reclassified to net assets without donor restrictions. The Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amounts contributed to the endowment fund. As a result of this interpretation, when reviewing its donor-restricted endowment fund, the Organization considers the fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization

The Organization has adopted an investment policy for endowment assets which is itemized above however the Organization has not adopted a spending policy for endowment assets.

Westerman Endowment Fund

Changes in endowment net assets during the years ended September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$68,417	\$64,028
Contributions	-	-
Investment return, net	15,252	4,389
Appropriation of endowment assets for expenditure	-	-
Endowment net assets, end of year	<u>\$83,669</u>	<u>\$68,417</u>

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

Paws Endowment Fund

Changes in endowment net assets during the years ended September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$2,070,770	\$1,987,844
Contributions	10,177	5,000
Investment return, net	427,685	147,654
Appropriation of endowment assets for expenditure	74,172	69,728
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Endowment net assets, end of year	<u>\$2,434,460</u>	<u>\$2,070,770</u>

8. NET ASSETS

Net assets with donor restrictions at September 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Perpetual in nature		
Endowment fund	\$ 856,434	\$ 846,257
Westerman fund	50,000	50,000
Specific purpose restriction		
Assistance to people with disabilities in California	51,069	51,069
Bulb Digital project	985	4,960
Dog training - general	33,669	18,417
Capital improvements	18,651	18,651
Mary Free Bed dog	10,000	-
Time restriction	42,526	60,276
	<hr/>	<hr/>
Total net assets with donor restrictions	<u>\$1,063,334</u>	<u>\$1,049,630</u>

Net assets released from donor restrictions during the years ended September 30, 2021 and 2020 are as follows:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restriction		
Training of dogs for veterans	\$ 35,000	\$ 26,243
Dog transportation	5,000	-
Bulb Digital project	3,975	29,040
Paws To Be Thankful	-	9,500
Equipment acquisition and maintenance	-	15,576
Satisfaction of time restriction	94,199	156,369
	<hr/>	<hr/>
Total restrictions released	<u>\$138,174</u>	<u>\$236,728</u>

PAWS WITH A CAUSE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020

9. RETIREMENT PLAN

The Organization maintains a defined contribution retirement plan qualified under Internal Revenue Code section 403(b)(7). Eligible employees were permitted to contribute into the retirement plan up to a maximum determined by the Internal Revenue Code. The plan allows a 50% Organization matching contribution up to 6% of employee compensation. The Board of Directors determines annually if the Organization will contribute. No contributions were made for the years ended September 30, 2021 or 2020.

10. DONATED GOODS AND SERVICES

Donated goods and services consist of the following for the years ended September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Professional and skilled services:		
Breeding services	\$ 4,500	\$ -
In-kind items:		
Investment securities	81,115	4,093
Vehicle	15,000	-
Materials and supplies	67,139	77,275
Dogs	-	10,000
Total received	<u>\$167,754</u>	<u>\$91,368</u>