



# **PAWS WITH A CAUSE**

**WAYLAND, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**



Vredeveld Haefner LLC  
CPAs and Consultants

# PAWS WITH A CAUSE

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### INDEPENDENT AUDITORS' REPORT

November 28, 2022

Board of Directors  
Paws With A Cause  
Wayland, Michigan

#### Opinion

We have audited the accompanying financial statements of Paws With A Cause (the Organization), which comprise the statements of financial position as of September 30, 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 Organization as of September 30, 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 Organization 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 Organization'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 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 Organization'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 Organization'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.

*Uroderfeld Haefner LLC*

**PAWS WITH A CAUSE**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2022 AND 2021**

	<u><b>2022</b></u>	<u><b>2021</b></u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,126,981	\$ 1,451,551
Investments	3,883,585	2,920,643
Accounts receivable	-	314
Pledges receivable, current portion	166,885	42,526
Inventories	16,936	23,898
Prepaid expenses	<u>26,303</u>	<u>60,510</u>
<b>Total current assets</b>	<u>6,220,690</u>	<u>4,499,442</u>
<b>Noncurrent assets</b>		
Property and equipment		
Construction in progress	21,723	21,723
Land, buildings and improvements	4,383,538	4,393,677
Equipment	652,104	653,052
Vehicles	<u>323,983</u>	<u>351,942</u>
Total property and equipment	5,381,348	5,420,394
Less accumulated depreciation	<u>4,171,413</u>	<u>4,056,892</u>
Net property and equipment	1,209,935	1,363,502
Investments	922,584	906,434
Pledges receivable	<u>283,700</u>	<u>-</u>
<b>Total noncurrent assets</b>	<u>2,416,219</u>	<u>2,269,936</u>
<b>Total assets</b>	<u><b>\$ 8,636,909</b></u>	<u><b>\$ 6,769,378</b></u>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 35,944	\$ 44,510
Accrued payroll	<u>87,982</u>	<u>73,177</u>
<b>Total liabilities (all current)</b>	<u>123,926</u>	<u>117,687</u>
<b>Net assets</b>		
Without donor restrictions	5,062,213	5,588,357
With donor restrictions	<u>3,450,770</u>	<u>1,063,334</u>
<b>Total net assets</b>	<u>8,512,983</u>	<u>6,651,691</u>
<b>Total liabilities and net assets</b>	<u><b>\$ 8,636,909</b></u>	<u><b>\$ 6,769,378</b></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, 2022 AND 2021

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and support</b>			
Contributions	\$ 3,639,004	\$ 112,120	\$ 3,751,124
United Way funding	575,695	-	575,695
Independent Charities of America funding	53,983	-	53,983
Capital campaign			
Contributions	-	2,393,135	2,393,135
Donated securities	-	41,886	41,886
Donated goods	68,356	-	68,356
Donated services	-	-	-
Charges for services			
Direct placements	141,358	-	141,358
Client application fees	13,500	-	13,500
Special events	82,327	-	82,327
Investment income	376,272	-	376,272
Unrealized gains (loss) on investments	(981,885)	(51,069)	(1,032,954)
Miscellaneous	72,221	-	72,221
Net assets released from restrictions			
Satisfaction of time restrictions	72,051	(72,051)	-
Satisfaction of purpose restrictions	36,585	(36,585)	-
<b>Total revenue and support</b>	<u>4,149,467</u>	<u>2,387,436</u>	<u>6,536,903</u>
<b>Expenses</b>			
<b>Program services</b>			
Training and services	3,426,078	-	3,426,078
General education	11,107	-	11,107
<b>Total program services</b>	<u>3,437,185</u>	<u>-</u>	<u>3,437,185</u>
<b>Supporting services</b>			
Management and general	291,291	-	291,291
Resource development	947,135	-	947,135
<b>Total supporting services</b>	<u>1,238,426</u>	<u>-</u>	<u>1,238,426</u>
<b>Total expenses</b>	<u>4,675,611</u>	<u>-</u>	<u>4,675,611</u>
Change in net assets before non-recurring item	<u>(526,144)</u>	<u>2,387,436</u>	<u>1,861,292</u>
<b>Non-recurring item</b>			
Forgiveness of PPP loan	-	-	-
Change in net assets	<u>(526,144)</u>	<u>2,387,436</u>	<u>1,861,292</u>
<b>Net assets, beginning of year</b>	<u>5,588,357</u>	<u>1,063,334</u>	<u>6,651,691</u>
<b>Net assets, end of year</b>	<u>\$ 5,062,213</u>	<u>\$ 3,450,770</u>	<u>\$ 8,512,983</u>

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

<b>2021</b>		
<b><u>Without Donor</u></b>	<b><u>With Donor</u></b>	<b><u>Total</u></b>
<b><u>Restrictions</u></b>	<b><u>Restrictions</u></b>	
\$ 4,444,695	\$ 151,878	\$ 4,596,573
322,157	-	322,157
45,108	-	45,108
-	-	-
-	-	-
163,254	-	163,254
4,500	-	4,500
122,750	-	122,750
15,075	-	15,075
94,537	-	94,537
114,990	-	114,990
407,829	-	407,829
72,471	-	72,471
94,199	(94,199)	-
43,975	(43,975)	-
<u>5,945,540</u>	<u>13,704</u>	<u>5,959,244</u>
3,477,267	-	3,477,267
52,170	-	52,170
<u>3,529,437</u>	<u>-</u>	<u>3,529,437</u>
282,397	-	282,397
620,387	-	620,387
<u>902,784</u>	<u>-</u>	<u>902,784</u>
<u>4,432,221</u>	<u>-</u>	<u>4,432,221</u>
<u>1,513,319</u>	<u>13,704</u>	<u>1,527,023</u>
<u>573,737</u>	<u>-</u>	<u>573,737</u>
<u>2,087,056</u>	<u>13,704</u>	<u>2,100,760</u>
<u>3,501,301</u>	<u>1,049,630</u>	<u>4,550,931</u>
<u>\$ 5,588,357</u>	<u>\$ 1,063,334</u>	<u>\$ 6,651,691</u>

**PAWS WITH A CAUSE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<b>Program Services</b>			<b>Supporting Services</b>			
	<b><u>Training and Services</u></b>	<b><u>General Education</u></b>	<b><u>Total</u></b>	<b><u>Management and General</u></b>	<b><u>Fundraising</u></b>	<b><u>Total</u></b>	<b><u>Total Expenses</u></b>
Salaries and wages	\$ 1,867,974	\$ 508	\$ 1,868,482	\$ 122,662	\$ 322,007	\$ 444,669	\$ 2,313,151
Employee benefits	219,593	3,509	223,102	45,660	33,769	79,429	302,531
Payroll taxes	144,408	465	144,873	20,768	22,591	43,359	188,232
Training center and kennels	256,663	-	256,663	-	3	3	256,666
Outside services	107,020	1,523	108,543	10,434	382,083	392,517	501,060
Software technology	54,016	736	54,752	5,906	19,866	25,772	80,524
Contract labor	146,123	115	146,238	-	-	-	146,238
Professional fees	77,840	450	78,290	17,206	11,482	28,688	106,978
Utilities	74,823	320	75,143	12,666	10,582	23,248	98,391
Rent	16,849	-	16,849	-	-	-	16,849
Maintenance	15,644	115	15,759	1,622	1,290	2,912	18,671
Printing and advertising	7,378	71	7,449	1,466	46,792	48,258	55,707
Special events	-	-	-	-	22,178	22,178	22,178
Travel and meals	48,021	441	48,462	2,252	15,623	17,875	66,337
Supplies	33,340	156	33,496	4,402	2,095	6,497	39,993
Telephone	26,105	155	26,260	5,117	2,649	7,766	34,026
Equipment	43,187	189	43,376	11,012	1,579	12,591	55,967
Insurance	46,820	150	46,970	6,666	7,242	13,908	60,878
Postage	13,420	48	13,468	1,808	23,861	25,669	39,137
Membership and dues	8,969	240	9,209	2,026	490	2,516	11,725
Veterinary	11,255	-	11,255	-	-	-	11,255
Miscellaneous	22,516	1,223	23,739	2,241	1,046	3,287	27,026
Depreciation	184,114	693	184,807	17,377	19,907	37,284	222,091
Total expenses	<u>\$ 3,426,078</u>	<u>\$ 11,107</u>	<u>\$ 3,437,185</u>	<u>\$ 291,291</u>	<u>\$ 947,135</u>	<u>\$ 1,238,426</u>	<u>\$ 4,675,611</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, 2021**

	<b>Program Services</b>			<b>Supporting Services</b>			
	<b><u>Training and Services</u></b>	<b><u>General Education</u></b>	<b><u>Total</u></b>	<b><u>Management and General</u></b>	<b><u>Fundraising</u></b>	<b><u>Total</u></b>	<b><u>Total Expenses</u></b>
Salaries and wages	\$ 1,871,297	\$ 27,357	\$ 1,898,654	\$ 111,594	\$ 230,960	\$ 342,554	\$ 2,241,208
Training center and kennels	241,276	2,312	243,588	48,214	37,682	85,896	329,484
Outside services	129,854	2,616	132,470	14,908	12,723	27,631	160,101
Software technology	233,641	-	233,641	-	-	-	233,641
Employee insurance	124,034	2,481	126,515	16,016	193,990	210,006	336,521
Payroll taxes	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
Meals and lodging	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	\$ 3,477,267	\$ 52,170	\$ 3,529,437	\$ 282,397	\$ 620,387	\$ 902,784	\$ 4,432,221

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,861,292	\$ 2,100,760
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	222,091	223,124
Forgiveness of PPP loan	-	(573,737)
Unrealized (gain) loss on investments	1,032,954	(407,829)
Donated vehicle received	-	(15,000)
Donated securities received	(54,342)	(81,115)
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	314	(314)
Pledges receivable	(408,059)	18,209
Inventories	6,962	20,570
Prepaid expenses	34,207	(29,772)
Accounts payable	(8,566)	18,468
Accrued expenses	14,805	40,194
Contributions restricted for endowment	(16,150)	(10,177)
<b>Net cash provided by (used in) operating activities</b>	<u>2,685,508</u>	<u>1,303,381</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(2,942,496)	(1,263,535)
Proceeds from sale of investments	984,792	680,824
Purchases of property and equipment	(68,524)	(113,906)
<b>Net cash provided by (used in) investing activities</b>	<u>(2,026,228)</u>	<u>(696,617)</u>
<b>Cash flows from financing activities</b>		
Collections of endowment support	<u>16,150</u>	<u>10,177</u>
Net increase (decrease) in cash and cash equivalents	675,430	616,941
<b>Cash and cash equivalents, beginning of year</b>	<u>1,451,551</u>	<u>834,610</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,126,981</u>	<u>\$ 1,451,551</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, 2022 and 2021

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### 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, 2022 and 2021

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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 \$13,764 and \$11,992 at September 30, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021 was \$55,707 and \$60,318, respectively.

# PAWS WITH A CAUSE

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 and 2021

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### **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, 2022 and through the auditors' report date, the date the financial statements were available to be issued. No such events or transactions were identified.

## **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 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, 2022	\$6,461,151
Less those unavailable for general expenditure within one year due to donor specified time or purpose restrictions	<u>2,538,186</u>
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b><u>\$3,922,965</u></b>

# PAWS WITH A CAUSE

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2022 and 2021

#### 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, 2022				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at fair value:				
Mutual funds	\$2,697,014	\$ -	\$ -	\$2,697,014
Stocks and exchange traded funds	65,751			65,751
Market linked certificates of deposit	2,043,404	-	-	2,043,404
	<u>\$4,806,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,806,169</u>
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>

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.

Level 2 - inputs to the valuation methodology include:

- quoted prices for similar assets and liabilities in active markets
- quoted prices for identical or similar assets and liabilities in markets that are not active
- other inputs that are observable or can be corroborated by observable market data
- 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.

# PAWS WITH A CAUSE

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2022 and 2021

#### 4. PLEDGES RECEIVABLE, INCLUDING RELATED PARTIES (RESTRICTED)

The Organization conducted a capital campaign to obtain funds for the renovation and expansion of its facility. Scheduled payments on pledges receivable for the five fiscal years succeeding September 30, 2022, and thereafter, are summarized as follows:

<u>Year</u>	<u>Capital Campaign</u>	<u>Other Pledges</u>
2023	\$127,683	\$39,202
2024	100,100	-
2025	98,100	-
2026	77,100	-
2027	8,400	-
<b>Total</b>	<b><u>\$411,383</u></b>	<b><u>\$39,202</u></b>

Approximately \$203,000 of the total pledges receivable represents pledges from board members or other related parties.

#### 5. 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 \$16,849 and \$16,797 for the years ended September 30, 2022 and 2021, respectively.

The Organization entered into several lease agreements for office equipment during the fiscal year with terms ranging from 32-month to 60-month. These leases call for monthly rental payments ranging between \$256 and \$355. Total rental expense under these agreements amounted to \$18,433 and \$0 for the years ended September 30, 2022 and 2021, 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, 2022:

<u>Year</u>	<u>Non-Cancelable Operating Leases</u>
2023	\$35,877
2024	34,828
2025	7,353
2026	4,254
2027	4,254
Total minimum payments due	<b><u>\$86,566</u></b>

# PAWS WITH A CAUSE

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 and 2021

### 6. 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 7.25% at September 30, 2022). There were no borrowings on the line of credit as of September 30, 2022 or 2021.

### 7. NET ASSETS

Net assets with donor restrictions at September 30 are as follows:

	<u>2022</u>	<u>2021</u>
Perpetual in nature		
Endowment fund	\$ 872,584	\$ 856,434
Westerman fund	50,000	50,000
Specific purpose restriction		
Assistance to people with disabilities in California	-	51,069
Bulb Digital project	-	985
Dog training - general	18,069	33,669
Capital improvements	18,651	18,651
Mary Free Bed dog	-	10,000
Training of dogs for veterans	17,243	-
Capital Campaign	2,023,638	-
Time restriction	39,202	42,526
Capital Campaign-Pledges	411,383	-
<b>Total net assets with donor restrictions</b>	<b><u>\$3,450,770</u></b>	<b><u>\$1,063,334</u></b>

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

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restriction		
Training of dogs for veterans	\$ -	\$ 35,000
Dog transportation	-	5,000
Bulb Digital project	985	3,975
Dog training - general	25,600	-
Mary Free Bed dog	10,000	-
Decline in market value of investments	51,069	-
Satisfaction of time restriction	72,051	94,199
<b>Total restrictions released</b>	<b><u>\$159,705</u></b>	<b><u>\$138,174</u></b>

### 8. 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



# PAWS WITH A CAUSE

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2022 and 2021

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 are as follows:

	<u><b>2022</b></u>	<u><b>2021</b></u>
Endowment net assets, beginning of year	\$83,669	\$68,417
Contributions	-	-
Investment return, net	(15,600)	15,252
Appropriation of endowment assets for expenditure	-	-
	<u><b>\$68,069</b></u>	<u><b>\$83,669</b></u>

#### ***Paws Endowment Fund***

Changes in endowment net assets during the years ended September 30 are as follows:

	<u><b>2022</b></u>	<u><b>2021</b></u>
Endowment net assets, beginning of year	\$2,434,460	\$2,070,770
Contributions	16,150	10,177
Investment return, net	(480,793)	427,685
Appropriation of endowment assets for expenditure	(83,522)	(74,172)
	<u><b>\$1,886,295</b></u>	<u><b>\$2,434,460</b></u>

## **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, 2022 or 2021.

# PAWS WITH A CAUSE

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 and 2021

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### 10. DONATED GOODS AND SERVICES

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

	<u>2022</u>	<u>2021</u>
Professional and skilled services:		
Breeding services	\$ -	\$ 4,500
In-kind items:		
Investment securities	54,342	81,115
Vehicle	-	15,000
Materials and supplies	55,900	67,139
Dogs	-	-
	<hr/>	<hr/>
<b>Total received</b>	<b><u>\$110,242</u></b>	<b><u>\$167,754</u></b>