

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**

**FINANCIAL STATEMENTS**  
**for the year ended December 31, 2022**

**Weworski & Associates**  
**Certified Public Accountants**

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**for the year ended December 31, 2022**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
Penngrove, California

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of Paws For Purple Hearts (a California non-profit corporation), herein referred to as “the Organization”, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities 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 Paws For Purple Hearts as of December 31, 2022, 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.

***Basis of Opinion***

We conducted our audit 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 ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we 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 these 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.



San Diego, California  
June 10, 2023

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2022**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 2,877,723
Restricted cash	30,000
Investments	1,635,129
Accounts receivable	77,456
Inventory	120,541
Prepaid expenses and other current assets	<u>44,306</u>

Total current assets 4,785,155

Property and equipment, net 789,657

Other assets:

Related party note receivable, long-term	786,790
Operating lease right-of-use assets, net	1,653,754
Deposits	<u>61,049</u>

Total other assets 2,501,593

Total assets \$ 8,076,405

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

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF FINANCIAL POSITION, Continued**  
**December 31, 2022**

**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 1,730,961
Accrued payroll and other accrued expenses	44,144
Current portion of operating lease liabilities	<u>294,332</u>
Total current liabilities	2,069,437
Operating lease liabilities, net of current portion	<u>1,391,518</u>
Total liabilities	3,460,955
<u>Net assets:</u>	
Without donor restrictions	4,585,450
With donor restrictions	<u>30,000</u>
Total net assets	<u>4,615,450</u>
Total liabilities and net assets	<u><u>\$ 8,076,405</u></u>

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

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF ACTIVITIES**  
**for the year ended December 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue, gains, and other support:</u>			
Contributions:			
Cash donations	\$ 9,514,963	\$ 88,000	\$ 9,602,963
In-kind donations	14,740	-	14,740
Stock donations	19,056	-	19,056
Grant income	153,215	5,000	158,215
Investment income (loss)	(159,074)	-	(159,074)
Other revenue	9,188	-	9,188
Net assets released from restrictions	71,750	(71,750)	-
Total revenue, gains, and other support	9,623,838	21,250	9,645,088
<u>Expenses:</u>			
Program services	7,655,962	-	7,655,962
General and administrative	195,145	-	195,145
Fundraising	1,534,358	-	1,534,358
Total expenses	9,385,465	-	9,385,465
Change in net assets	238,373	21,250	259,623
<u>Net assets, Beginning</u>	4,347,077	8,750	4,355,827
<u>Net assets, Ending</u>	\$ 4,585,450	\$ 30,000	\$ 4,615,450

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

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF CASH FLOWS**  
**for the year ended December 31, 2022**

<u>Cash flow from operating activities:</u>	
Cash received from revenues, gains, and other support	\$ 9,707,650
Cash paid for program and supporting services	<u>(6,846,110)</u>
Net cash provided by operating activities	2,861,540
 <u>Cash flow from investing activities:</u>	
Purchases of property and equipment	(755,681)
Purchase of investments	<u>(580,665)</u>
Net cash used in investing activities	(1,336,346)
 <u>Cash flow from financing activities:</u>	
Payments made to related party, net	(969,584)
Advances made on related party note receivable	(786,790)
Payments made on notes payable	<u>(18,432)</u>
Net cash used in financing activities	<u>(1,774,806)</u>
Net decrease in cash	(249,612)
<u>Cash, cash equivalents and restricted cash, Beginning</u>	<u>3,157,335</u>
<u>Cash, cash equivalents and restricted cash, Ending</u>	<u><u>\$ 2,907,723</u></u>

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



**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**STATEMENT OF CASH FLOWS, Continued**  
**for the year ended December 31, 2022**

Reconciliation of change in net assets to net cash  
provided by operating activities:

Change in nets assets	\$	259,623
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Adjustments to reconcile change in net assets to net cash  
provided by operating activities:

Depreciation		237,571
Investment donation		(19,056)
Net depreciation of investments		159,074
Related party licensing and service fees		1,973,468
<u>Changes in assets and liabilities:</u>		
Accounts receivable, net		(77,456)
Inventory		(38,500)
Prepaid expenses and other current assets		18,185
Right-of-use assets and liabilities		(6,636)
Accounts payable		410,857
Accrued payroll and other accrued expenses		(39,140)

Total adjustments		2,601,917
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Net cash provided by operating activities	\$	<u>2,861,540</u>
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Reconciliation of cash, cash equivalents and restricted cash to  
cash, cash equivalents and restricted cash at the end of the year:

Cash and cash equivalents	\$	2,877,723
Restricted cash		<u>30,000</u>

Cash, cash equivalents and restricted cash at the end of the year	\$	<u>2,907,723</u>
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The accompanying notes are an intergral part of these financial statements.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended December 31, 2022**

Note 1: Summary of Significant Accounting Policies

The following items comprise the significant accounting policies of the Organization. The policies reflect industry practices and conform to accounting principles generally accepted in the United States of America.

Organization's Activities

Paws For Purple Hearts (the Organization) is a California non-profit corporation that was founded in 2011 to offer therapeutic intervention for veterans and active-duty personnel by teaching those with Post Traumatic Stress Disorder (PTSD) to train service dogs for their comrades with combat-related disabilities. The Organization provides this program at Anchorage, Alaska; Seattle and Tacoma, Washington, Menlo Park and San Diego, California; San Antonio, Texas and Ruther Glen, Virginia.

Basis of Accounting

The accounting records and accompanying financial statements have been maintained and prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). This standard requires the classification of the Organization's financial position and activities according to two classes of net assets; without donor restrictions and with donor restrictions.

Net asset without donor restrictions - Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions - Net assets that are subject to donor imposed restrictions.

As of December 31, 2022, the Organization has net assets without donor restrictions of \$4,585,450 and net assets with donor restrictions of \$30,000.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 1: Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

As of December 31, 2022, the Organization has cash restricted to use of \$30,000. The cash was restricted by the donor to be used for a specific dog training and related training relations and was not available for general operating purposes.

Investments

The Organization's investments consist of equity, mutual funds and fixed income securities. Investments with readily determinable fair values are stated at fair value. Management has determined all investments should be classified as Level 1 investments. Dividends, interest, realized and unrealized gains and losses on investments are included in investment income (loss) on the accompanying statement of activities.

Fair value of securities is based upon quoted market prices in active markets or estimated fair value when quoted market prices are not available. The cost basis for realized gains and losses on available-for-sale securities is determined on a specific identification basis.

The Organization recognizes transfers in and out of levels within fair value hierarchy at the end of the reporting period. There were no transfers between levels during the year ended December 31, 2022.

Inventory

The Organization trains dogs and has purchased dogs costing \$120,541 and is included in inventory on the accompanying statement of financial position.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 1: Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value on the donation date. Depreciation is computed using the straight-line method over estimated useful lives. Normal repairs and maintenance are expensed as incurred. Expenditures that materially extend the useful life of an asset are capitalized. The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated and any resulting gain or loss on disposition is included in income. Fixed assets are depreciated on the straight-line method over 5 to 7 years.

Leases

On January 1, 2022, the Organization implemented ASU 2016-02, Leases (Topic 842) which requires the recognition of assets and liabilities by lessees for those leases classified as operating leases under GAAP. The transition was implemented under the modified retrospective transition method, which resulted in no cumulative-effect adjustment to retained earnings. The guidance requires that a lessee should recognize on the statement of financial position a liability to make lease payments and a right-to-use asset representing the Organization's right to use the underlying assets for the term of the lease. At lease inception, the Organization determines the lease term. The guidance allows a lessee who enters into a lease with a term of 12 months or less to make an accounting policy election by class of underlying assets not to recognize assets and liabilities. The Organization determines if an arrangement is a lease at inception and evaluates the lease agreement to determine whether the lease is a finance or operating lease. Right-of-use ("ROU") assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Organization uses the risk free rate based on the information available at the commencement to determine the present value of lease payments over the lease term. As of December 31, 2022, the Organization has five lease that consists of teaching and administrative space.

In transition, the Organization also applied the package of practical expedients that permit entities to not reassess (i) whether expired or existing contracts contain a lease under the new standard, (ii) the lease classification for expired or existing leases, or (iii) whether previously capitalized initial direct costs would qualify for capitalization under the new standard. The Organization also applied the practical expedient that permits a lessee to account for lease and non-lease components in a contract as a single lease component. In addition, the Organization used hindsight during transition. See Note 8 for more information about the Organization's lease-related obligations.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 1: Summary of Significant Accounting Policies, Continued

Revenues

The Organization recognizes revenue in accordance with FASB ASC Topic 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The Organization records contribution income as revenue upon receipt or promise to give. The Organization records grant income as revenue upon receipt or as the revenue is earned upon completion of required services imposed by the grant. Contributions and grants with donor-imposed restrictions are reported as revenue. Restricted net assets are reclassified to net assets without restrictions when an event occurs which satisfies the donor-imposed restrictions. Deferred revenue represents grant revenue that has not yet been earned as the Organization has not performed all required services to consider the grant income earned.

Advertising Costs

Advertising, promotion and similar costs are expensed as incurred.

Income Taxes

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and is not liable for federal or state income taxes. The Organization could be liable for unrelated business income tax, should it have any income from trade or business activities regularly carried on that are unrelated to the purposes for which it was granted tax exemption. Management does not believe the Organization has any unrelated business income.

U.S. GAAP requires the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service (IRS). The Organization has analyzed the tax positions taken by the Organization, and believes there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Organization's tax filings are subject to audit by various taxing authorities. As of December 31, 2022, the earliest tax year still subject to examination is 2019 for federal purposes and 2018 for state purposes. The Organization believes their estimates are appropriate based on current facts and circumstances.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 1: Summary of Significant Accounting Policies, Continued

Functional Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in Note 11. The allocation of functional expenses in Note 11 presents the natural classification detail of expenses by function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expense are tracked using direct identification methodology of charging specific expenses as either program services or institutional support.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value.

The definition of the fair value hierarchy is as follows:

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 - Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that market participants would require.

The Organization's investments are reported at fair value. The Organization's remaining financial instruments primarily consist of cash and cash equivalents, inventory, accounts payable, other accrued expenses, debt and deferred rent. The carrying values of the Organization's financial instruments approximate fair value.

Concentration of Credit Risk

The Organization maintains its cash balance and cash equivalents in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Organization performs ongoing evaluations of these institutions to limit concentration risk exposure.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 2: Related Party Transactions

The founder, who is also a member of the board of directors of the Organization, is a member of the board of directors of Bergin University of Canine Studies (BUCS). The Organization has a contract with BUCS located in Penngrove, California, as discussed further in Note 9. As a result of the contract, the Organization paid \$709,831 to BUCS during the year ended December 31, 2022, which is included in program services on the accompanying statement of activities. As of December 31, 2022, the Organization has an outstanding liability of \$234,130 as a result of the contract, which is included in accounts payable on the accompanying statement of financial position.

During the year ended December 31, 2022, the Company entered into a note receivable with BUCS for \$786,790, as described in Note 6. During the year ended December 31, 2022, the Organization recognized interest income of \$6,557 on the note receivable. As of December 31, 2022, The Organization has a note receivable due from BUCs for \$786,790 and interest receivable of \$6,557. The interest receivable has been included in prepaid expenses and other current assets on the statement of financial position.

Note 3: Information about Financial Assets and Liquidity

The Organization's financial assets without donor or other restrictions limiting their use, available within one year of the statement of financial position date for general expenditure, are as follows:

Cash and cash equivalents	\$ 2,877,723
Investments	1,635,129
Receivables	<u>77,456</u>
	<u>\$ 4,590,308</u>

The Organization's liquidity management policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To manage unanticipated liquidity needs, the investments noted above are available for sale and can be used to fund the operations and future liabilities of the Organization.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 4: Investments

Investments in marketable securities are recorded at fair value. The Organization's investments consist of the following at December 31, 2022:

	Adjusted Cost	Unrealized Gains/(Loss)	Fair Value
Bonds	\$ 583,114	\$ 3,125	\$ 586,239
Equity securities	16,431	56,000	72,430
Mutual funds	1,049,777	(73,317)	976,460
 Total	 \$ 1,649,322	 \$ (14,192)	 \$ 1,635,129

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to level or risk associated with certain investment securities, it is at least reasonably possible that changes in any of these factors could materially affect amounts reported.

Note 5: Fair Value Measurement

Following is a description of the valuation methodologies used for assets measured at fair value:

*Bonds:* Valued at the closing price reported on the active market on which the individual bonds are traded and categorized as level 1 of the fair value hierarchy.

*Equity Securities and Mutual Funds:* Valued at the closing price reported on the active market on which the individual securities are traded and categorized as level 1 of the fair value hierarchy.

The preceding method described may produce a settlement value calculation that may not be indicative of net realizable value or reflective of future settlement values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the settlement value of certain financial instruments could result in a different settlement value measurement at the reporting date.



**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 5: Fair Value Measurement, Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2022:

	<u>Fair Value</u>	<u>Level 1</u>
Bonds	\$ 586,239	\$ 586,239
Equity securities	72,430	72,430
Mutual funds	976,460	976,460
	<u>\$ 1,635,129</u>	<u>\$ 1,635,129</u>

Note 6: Note receivable

During the year ended December 31, 2022, the Company entered into note receivable of \$786,790 with BUCS in relation to the purchase of a new property in Canyonville, Oregon. The Canyonville property was purchased jointly by the Organization and Bergin, 25% and 75%, respectively. The note receivable represents the funds that were paid by the Organization on BUCS's behalf. The note receivable has an annual interest rate of 5.00%. The note receivable requires monthly interest only payments beginning November 1, 2022 through October 1, 2027 and principal and interest payments of \$14,848 beginning on November 1, 2027 through October 1, 2032, the maturity date of the note receivable.

Note 7: Property and Equipment

Property and equipment consists of the following:

Land	\$ 90,081
Buildings	510,461
Furniture and fixtures	182,753
Leasehold improvements	841,076
Autos and trucks	342,266
	<u>1,966,637</u>
Less: accumulated depreciation	<u>(1,176,980)</u>
	<u>\$ 789,657</u>

Depreciation expense for the year ended December 31, 2022 was \$237,571 and is included in program services on the accompany statement of activities.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 8: Right-of-Use Leases

The Organization leases facilities in Anchorage, Alaska; Ruther Glen, Virginia; San Diego, California, San Antonio, Texas and Seattle, Washington under non-cancelable operating leases. The leases for the locations require monthly payments totaling \$37,944 and expire in May 2030. In addition, the leases have scheduled rate increases, provide for rent abatement, require the Organization to pay for common area maintenance.

The Company's weighted-average remaining lease term relating to its operating leases is 8 years with a weighted-average discount rate of 1.55%. As of December 31, 2022, the Company has no financing leases.

Future maturities of operating leases, which exist at December 31, 2022, by year and in aggregate, are as follows:

<u>Year ending December 31,</u>	
2023	\$ 310,742
2024	327,227
2025	338,764
2026	291,908
2027	140,093
Thereafter	<u>352,820</u>
	Total lease payments 1,761,554
	Less: imputed interest <u>(75,704)</u>
	Present value of lease payments 1,685,850
	Less: current portion <u>(294,332)</u>
	Long-term operating lease liability <u>\$ 1,391,518</u>

Lease expense for the year ended December 31, 2022 was \$502,148 and is included in program services on the accompany statement of activities.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 9: Agreements

The Organization has an agreement with BUCS to provide dogs that are suitable for candidates for training by veterans suffering from psychological scars, curriculum and updates for teaching veterans about training services and assistance dogs and oversight of the program, consulting regarding dogs being trained by the Organization, and services and expenses. The Organization has agreed to identify veterans eligible for dogs, work with veterans under the Organization's supervision, obtain dogs exclusively from BUCS, provide for the health and maintenance of the dogs, to extent possible, and all instructors of the Organization shall be BUCS graduates. In addition, the Organization will return the dogs to BUCS when suitable for placement. The agreement requires the Organization to reimburse BUCS for the cost of services and expenses, and an annual licensing fee. Effective January 1, 2022 the calculation of the licensing fee changed to 12% of the Organization's revenue from \$250,000 to \$500,000, 21% of revenue from \$500,001 to \$750,000, 30% of revenue from \$750,001 to \$1,000,000 and 36% of revenue from \$1,000,001 to \$10,000,000. During the year ended December 31, 2022, the Organization recorded \$1,973,468 for licensing and administrative fees which is included in program services on the accompanying statement of activities. As of December 31, 2022, the Organization owes \$1,238,014 to BUCS related to the above agreement which is included in accounts payable on the accompanying statement of financial position.

Note 10: Commitments and Contingencies

*Litigation*

Management does not believe the Organization is currently party to any pending or threatened litigation arising from services currently or formerly performed by the Organization. To the extent that there may be pending or threatened litigation that management is unaware of, they do not believe there to be any possible claims that could have a material adverse effect on their business, results of operations or financial condition.

**PAWS FOR PURPLE HEARTS**  
**(A California Non-Profit Corporation)**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2022**

Note 11: Functional Expenses

The following tables present expenses by both their nature and function for the year ended December 31, 2022:

	Program Services	General and Administrative	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 1,349,516	\$ 103,747	\$ 229,366	\$ 1,682,629
Bank fees	42,162	438	12,168	54,768
Contract services	520,785	45,000	5,650	571,435
Dog supplies	76,941	-	-	76,941
Equipment and furniture	26,124	-	-	26,124
Office expenses	7,467	-	-	7,467
Mailing lists	139,252	1,988	55,194	196,434
Marketing	59,931	-	5,318	65,249
Occupancy	601,894	-	-	601,894
Postage	1,097,306	18,966	526,796	1,643,068
Printing and copying	1,042,540	14,490	402,470	1,459,500
Supplies	20,496	-	-	20,496
Insurance	31,540	-	-	31,540
Licensing fees	1,533,067	-	-	1,533,067
Professional services	808,287	10,516	292,110	1,110,913
Taxes and licenses	624	-	5,286	5,910
Travel and meetings	60,460	-	-	60,460
Depreciation	237,570	-	-	237,570
	<u>\$ 7,655,962</u>	<u>\$ 195,145</u>	<u>\$ 1,534,358</u>	<u>\$ 9,385,465</u>

Operating expenses are allocated functionally on a direct basis. Certain categories of expenses are attributable to more than one function, such as salaries, benefits and payroll taxes, services and professional fees, supplies, and penalties and interest. In addition, the Organization had joint costs of \$3,441,590 related to a direct mail call-to-action fundraising campaign. The joint costs have been allocated to each functional expense, program services of \$3,075,875, general and administrative of \$3,949 and fundraising of \$361,766.

Note 12: Subsequent Events

Subsequent events were evaluated through June 10, 2023, which is the date the financial statements were available to be issued.