

paws4people, Inc.

Financial Statements

December 31, 2021

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
paws4people, Inc.
Wilmington, North Carolina

Opinion

We have audited the accompanying financial statements of paws4people, Inc. (a nonstock corporation incorporated in the Commonwealth of Virginia and a 501c3 public charity), which comprise the statement of financial position as of December 31, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of paws4people, Inc. as of December 31, 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.

Basis for 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of paws4people, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 paws4people, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 paws4people, Inc.'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 paws4people, Inc.'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.

Thomas, Judy & Duckert, P.A.

Durham, North Carolina
July 20, 2022

paws4people, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2021

<u>ASSETS</u>	Without Donor Restrictions		With Donor Restrictions	Total
	Operations	Canines		
Current Assets:				
Cash and Cash Equivalents	\$ 304,896	\$	\$ 255,090	\$ 559,986
Sales Tax Receivable	5,267			5,267
Tractor Supply/4health Gift Card Inventory			51,917	51,917
Prepaid Expenses	17,407			17,407
Investments	89,941			89,941
Total Current Assets	417,511		307,007	724,518
Canine Assets:				
Canines in Active Service:				
Service Dogs		10,406,257		10,406,257
Facility Dogs		1,595,170		1,595,170
Emotional Support Dogs		1,405,857		1,405,857
Breeding Dogs		913,793		913,793
Less: Accumulated Depreciation		(4,291,860)		(4,291,860)
Total Canines in Active Service, Net		10,029,217		10,029,217
Canines in Training Programs		2,214,826		2,214,826
Total Canine Assets, Net		12,244,043		12,244,043
Property and Equipment:				
Land	678,220			678,220
Buildings and Improvements	1,949,150			1,949,150
Furniture and Equipment	40,116			40,116
Vehicles	218,416			218,416
Less: Accumulated Depreciation	(275,505)			(275,505)
Property and Equipment, Net	2,610,397			2,610,397
Total Assets	\$ 3,027,908	\$ 12,244,043	\$ 307,007	\$ 15,578,958

<u>LIABILITIES AND NET ASSETS</u>	<u>Without Donor Restrictions</u>		<u>With Donor</u>	<u>Total</u>
	<u>Operations</u>	<u>Canines</u>	<u>Restrictions</u>	
Current Liabilities:				
Accounts Payable	\$ 38,908	\$	\$	\$ 38,908
Accrued Expenses	200			200
Deferred Revenue	490		255,090	255,580
Notes Payable, Current Portion	76,378			76,378
Total Current Liabilities	115,976		255,090	371,066
Notes Payable, Net of Current Portion	1,842,138			1,842,138
Total Liabilities	1,958,114		255,090	2,213,204
Net Assets:				
Without Donor Restriction:				
Undesignated	1,069,794	12,244,043		13,313,837
With Donor Restriction:				
Purpose Restrictions			51,917	51,917
Total Net Assets	1,069,794	12,244,043	51,917	13,365,754
Total Liabilities and Net Assets	<u>\$ 3,027,908</u>	<u>\$ 12,244,043</u>	<u>\$ 307,007</u>	<u>\$ 15,578,958</u>

See Accompanying Notes

paws4people, Inc.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	Without Donor Restrictions		With Donor Restrictions	Total
	Operations	Canines		
Support and Revenue:				
Public Support	\$ 512,633	\$	\$	\$ 512,633
Federal Grant/Wounded Warrior Service Dog Program Revenue			486,915	486,915
In-Kind Training and Care Revenue, Net	12,000	2,758,762		2,770,762
In-Kind Goods and Services	148,151		40,000	188,151
Fundraising Revenue	613,506			613,506
Investment Returns	8,620			8,620
Product Sales	19,501			19,501
Gain on Disposal of Fixed Asset	2,534			2,534
Interest Income	722			722
Miscellaneous Revenue	4,313			4,313
Total Support and Revenue	1,321,980	2,758,762	526,915	4,607,657
Net Assets Released from Restriction	514,321		(514,321)	
Total Support, Revenue and Net Assets Released from Restriction	1,836,301	2,758,762	12,594	4,607,657
Operating Expenses:				
Program	1,788,652	2,010,038		3,798,690
General and Administrative	72,295			72,295
Fundraising	93,526			93,526
Total Operating Expenses	1,954,473	2,010,038		3,964,511
Change in Net Assets	(118,172)	748,724	12,594	643,146
Net Assets, Beginning of Period	1,187,966	11,495,319	39,323	12,722,608
Net Assets, End of Period	<u>\$ 1,069,794</u>	<u>\$ 12,244,043</u>	<u>\$ 51,917</u>	<u>\$ 13,365,754</u>

See Accompanying Notes

paws4people, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021

	Program			General and Administrative	Fundraising	Total
	Operations	Canines	Total			
Salaries and Wages	\$ 705,245	\$	\$ 705,245	\$ 35,052	\$ 30,663	\$ 770,960
Payroll Taxes and Fees	56,564		56,564	2,459	2,459	61,482
Employee Benefits	42,583		42,583	1,851	1,851	46,285
Advertising	34,520		34,520	1,266	8,729	44,515
Printing and Postage	6,183		6,183			6,183
Special Events					36,257	36,257
Office	51,355		51,355	1,556	1,556	54,467
Information Technology	77,761		77,761	2,482	2,482	82,725
Canine Operations and Care	209,010		209,010			209,010
Travel and Transportation	67,726		67,726			67,726
Membership, Conferences and Certifications	7,840		7,840			7,840
Insurance	53,615		53,615	1,144	1,144	55,903
Professional Fees	47,243		47,243	18,100		65,343
Taxes, License, and Registration	42,586		42,586			42,586
Repairs and Maintenance	105,291		105,291	3,360	3,360	112,011
In-Kind, Goods and Services	114,135		114,135			114,135
Interest	66,196		66,196	2,113	2,113	70,422
Miscellaneous	9,545		9,545			9,545
In-Kind Canine Training and Care		3,437,696	3,437,696			3,437,696
Loss on Retirement of Dogs		552,052	552,052			552,052
Transfer of Dogs to Outside Agency		175,529	175,529			175,529
Depreciation	91,254	1,457,986	1,549,240	2,912	2,912	1,555,064
Total Expense by Function	1,788,652	5,623,263	7,411,915	72,295	93,526	7,577,736
Less: Expenses Included with Revenue:						
Transfer of Dogs to Outside Agency		(175,529)	(175,529)			(175,529)
In-Kind Training Expense		(3,437,696)	(3,437,696)			(3,437,696)
Total Operating Expense	\$ 1,788,652	\$ 2,010,038	\$ 3,798,690	\$ 72,295	\$ 93,526	\$ 3,964,511

See Accompanying Notes

paws4people, Inc.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2021

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 643,146
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,555,064
Amortization of Debt Issuance Costs	6,577
In-Kind Canine Training and Care, Net	(2,758,762)
Loss on Retirement of Dogs	552,052
Stock Contribution	(531)
Unrealized Gain on Investments	(8,356)
Gain on Disposal of Fixed Assets	(2,534)
Changes in Assets and Liabilities that Provided (Used) Cash:	
Sales Tax Receivable	972
Tractor Supply/4health Gift Card Inventory	(12,594)
Prepaid Expenses	12,141
Accounts Payable	(56,436)
Accrued Expenses	(8,825)
Deferred Revenue	<u>(128,165)</u>
Net Cash Used by Operating Activities	<u>(206,251)</u>
Cash Flows from Investing Activities:	
Purchase of Investments	(264)
Purchase of Property and Equipment	(9,445)
Proceeds from Disposal of Fixed Assets	<u>4,387</u>
Net Cash Used by Investing Activities	<u>(5,322)</u>
Cash Flows from Financing Activities:	
Payments on Notes Payable	<u>(26,646)</u>
Net Cash Used by Financing Activities	<u>(26,646)</u>
Net Decrease in Cash and Cash Equivalents	(238,219)
Cash and Cash Equivalents, Beginning of Year	<u>798,205</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 559,986</u></u>

See Accompanying Notes

paws4people, Inc.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2021
(Continued)

Supplemental Disclosure of Cash Flow Information:

Cash Paid During the Year for Interest	<u>\$ 69,203</u>
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Supplemental Schedule of Noncash Investing and Financing Activities:

Purchase of Property and Equipment	\$ (588,412)
Less: Amount Financed with Note Payable	<u>578,967</u>

Cash Paid for Purchase of Property and Equipment	<u>\$ (9,445)</u>
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Payments of Closing Costs	\$ (4,391)
Less: Amount Financed with Note Payable	<u>4,391</u>

Cash Paid for Closing Costs	<u>\$ -</u>
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See Accompanying Notes

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

1. Summary of Significant Accounting Policies

Operations

paws4people, Inc. (the "Organization") is a nonstock-corporation incorporated in the Commonwealth of Virginia on July 6, 1999 with its principal office in Wilmington, North Carolina. The Organization is registered as a foreign corporation in the states of North Carolina, West Virginia, California, Georgia, Illinois, and Texas and in the District of Columbia. The Organization does business as paws4people, paws4people foundation, paws4prisons®, and paws4vets. The Organization fulfills its mission by focusing its efforts in these primary service areas:

Operations: The Organization's operations are designed to provide overall support and assistance to the Organization's Canines program.

Canines: The Organization's mission is educating and empowering people to utilize Assistance Dogs to transform their lives. The Organization provides certification, insurance, and support for each Client-Service Dog Team and Handler-Facility Dog Team for the duration of the teams' career.

The Organization specializes in raising, training, placing and certifying customized Service Dogs for two general groups: children and adolescents with physical, neurological, psychiatric, or emotional disabilities; and Veterans and Service Members with Post-Traumatic Stress Disorder (PTSD), Chronic/Complex Post-Traumatic Stress Disorder (C-PTSD), Traumatic Brain Injuries (TBI), Military Sexual Trauma (MST)/Sexual Trauma (ST), and Moral Injury.

The Organization also specializes in raising, training, placing and certifying Facility Dogs with professionals and volunteers who use the Facility Dog in workplace or volunteer settings to provide animal assisted interventions, which are designed to promote improvement in physical, social, emotional, and/or cognitive functioning of the individual(s) involved and in which the Handler-Facility Dog Team is an integral part.

The Organization raises, trains, and places Emotional Support Dogs with Handlers. Emotional Support Dogs provide emotional support to Handlers within their own homes and other dog-friendly environments. They are trained with basic obedience, advanced obedience and, in some instances, disability skills, commands and behaviors.

The Organization also raises, trains, and places Breeding Dogs with Custodians. The paws4people Breeding Dog Program is a custom bloodline specifically developed to produce Breeding Dogs with the quality, health, personality, temperament, and disposition suitable for careers as Service Dogs and Facility Dogs. All prospective Breeding Dogs have many health certifications and clearances completed prior to being bred.

Dogs determined by the Organization not to have the personality, temperament, and disposition suitable for careers as Service Dogs, Facility Dogs, or Emotional Support Dogs are placed by the Organization as pets with Custodians.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

1. Summary of Significant Accounting Policies (Continued)

Operations (Continued)

Canines: (Continued)

The Organization works to exceed industry training and utilization standards for all of its Service Dogs and Facility Dogs, and to increase the public's knowledge about the important roles these dogs serve within society.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. ASC 958-205 requires that not-for-profit organizations provide a statement of financial position, a statement of activities, a statement of functional expenses, and a statement of cash flows. Also, ASC 958-205 requires classification of an organization's net assets, revenues and expenses according to the following net asset classifications:

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Trustees.

Net Assets with Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from those estimates.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash on hand, cash in demand deposit accounts, and all short-term debt securities with a maturity of three months or less to be cash equivalents. The Organization had \$358,075 of cash equivalents at December 31, 2021.

Investments

Investments in marketable securities with readily determinable fair values and all investments in precious metals are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated securities are recorded at their fair market values on the dates of the gifts. The Organization determines whether and when to sell or to hold the donated securities.

Gift Card Inventory

Gift card inventories are stated at cost determined by the first-in, first-out method.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$2,500 or more and an estimated useful life of more than one year. Purchased property and equipment are carried at cost. Donations of equipment are recorded as contributions at their estimated fair value at the date of the donation. Assets donated are considered unrestricted, unless a specific restriction for the asset donated is included in a Charitable Gift Agreement signed by the donor and the Executive Director of the Organization. Assets donated with explicit restrictions regarding their use are reported as contributions with donor restrictions. In the absence of such stipulations, contributions of equipment are recorded as assets without donor restrictions. Depreciation and amortization are computed using the straight-line method over the estimated useful lives as follows:

Buildings and Improvements	39	years
Furniture and Equipment	5 - 7	years
Vehicles	5 - 7	years

Depreciation expense associated with property and equipment totaled \$97,078 for the year ended December 31, 2021.

Canine Assets

Canine assets are recorded in the statement of financial position at the estimated cost of training from birth, donation, or acquisition through conditional custody placement under contract by the Organization with a Client or Handler.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

1. Summary of Significant Accounting Policies (Continued)

Canine Assets (Continued)

The Organization spends approximately two years to raise, train, place, and certify a canine with a Client or Handler. Beginning at conditional custody placement by the Organization with a Client or Handler, a canine is depreciated over an eight-year timeframe.

The Organization spends between one and two years raising, training, and placing an Emotional Support Dog with Handler and a Breeding Dog with a Custodian. Beginning at conditional custody placement by the Organization with a Client, Handler, or Custodian, a Service Dog, Facility Dog, Emotional Support Dog, or Breeding Dog is depreciated over an eight-year timeframe.

The Organization spends four months to a year to train dogs placed as pets with Custodians. Beginning at contractual custody placement by the Organization with a Custodian, a canine is depreciated over a three-year timeframe.

Depreciation expense associated with canine assets totaled \$1,457,986 for the year ended December 31, 2021.

The Organization incurred the following activity on canines in active service and canines in training programs during the year ended December 31, 2021:

	<u>December 31, 2020</u>	<u>Additions</u>	<u>Retirements and Reclasses</u>	<u>December 31, 2021</u>
Canines in Active Service:				
Service Dogs	\$ 8,397,521	\$ 2,603,117	\$ (594,381)	\$ 10,406,257
Facility Dogs	1,089,226	258,210	247,734	1,595,170
Emotional Support Dogs	1,179,335		226,522	1,405,857
Breeding Dogs	774,539	200,304	(61,050)	913,793
Accumulated Depreciation	<u>(3,285,078)</u>	<u>(1,457,986)</u>	<u>451,204</u>	<u>(4,291,860)</u>
 Total Canines in Active Service	 8,155,543	 1,603,645	 270,029	 10,029,217
 Inactive Dogs	 401,608		 (401,608)	
Canines in Training Programs	<u>2,938,168</u>	<u>2,934,291</u>	<u>(3,657,633)</u>	<u>2,214,826</u>
 Total Canine Assets, Net	 <u>\$ 11,495,319</u>	 <u>\$ 4,537,936</u>	 <u>\$ (3,789,212)</u>	 <u>\$ 12,244,043</u>

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

1. Summary of Significant Accounting Policies (Continued)

Functional Allocations of Expenses

The statement of functional expenses reports certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. All other expenses are directly identified with either programs or in general and administrative and fundraising.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and Wages	Time and Effort
Payroll Taxes and Fees	Time and Effort
Employee Benefits	Time and Effort
Office	Square Footage
Information Technology	Square Footage
Insurance	Square Footage
Repairs and Maintenance	Square Footage
Depreciation	Square Footage
Interest	Square Footage

Contributions

All charitable gifts to the Organization or any of its programs or legal entities are considered without donor restriction, unless a specific restriction for the charitable gift is included in a Charitable Gift Agreement signed by the donor and the Executive Director of the Organization. All charitable gifts without donor restriction are used to fund the entirety of the Organization, its operations, programs, services, and future growth.

The Organization's Charitable Gift Solicitation, Acceptance, and Administration Policy is applicable to and governs all charitable gifts to the Organization and all of the Organization's gift agents. Contributions that are restricted by the donor are reported as increased in net assets without donor restriction if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending upon the nature of the restrictions. When a restriction expires, 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 expenses advertising costs when incurred. Advertising expense totaled \$44,515 for the year ended December 31, 2021.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from income taxes as a not-for-profit organization under IRS code section 501(c)(3). In addition, the Organization has been approved under Internal Revenue Code for recognition as a public charity and not as a private foundation.

The Organization adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. Under this provision, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation had no impact on the Organization's financial statements. As of December 31, 2021, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress.

Concentrations of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. These are identified as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures up to \$250,000 for all accounts held at a single institution. As of December 31, 2021, the Organization maintained deposits of \$161,247 in excess of FDIC insured limits.

2. Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2021:

Cash and Cash Equivalents	\$ 559,986
Other Receivables	5,267
Tractor Supply/4health Gift Card Inventory	51,917
Investments	<u>89,941</u>
Total Financial Assets	707,111
Less Amounts not Available to Meet General Expenditures over the Next Twelve Months:	
Net Assets with Donor Restrictions	<u>(307,007)</u>
Financial Assets Available to Meet General Expenditures over the Next Twelve Months	<u>\$ 400,104</u>

Although the Organization does not have a formal liquidity policy, it generally maintains approximately three months of operating expenses in its reserves.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

3. Investments

The Organization's investments consist of stocks and precious metals recorded at market value as of December 31, 2021:

	<u>Market Value</u>	<u>Cost</u>
Precious Metals	\$ 26,795	\$ 18,741
Common Stock	63,146	48,400
Total	\$ 89,941	\$ 67,141

The following schedule summarizes the investment returns on investment accounts for the year ended December 31, 2021:

Interest and Dividends	\$ 264
Unrealized Gain on Investments	8,356
Investment Returns	\$ 8,620

4. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs have the lowest priority.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Organization uses Level 2 inputs when market prices are not attainable but other observable inputs are available to arrive at a fair value, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available. All of the Organization's investments are considered Level 1 investments.

Level 1 Fair Value Measurements

The fair value of precious metals and common stock are based on quoted net asset values of the shares held by the Organization at year end.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

5. Notes Payable

In May 2018, the Organization entered into a note payable with a financial institution. The note payable required monthly principal and interest payments of \$8,136 and bore interest at a fixed rate of 5.25%. All unpaid interest and principal was due upon maturity in May 2023. The note was secured by the real property and all improvements.

In July 2020, the Organization refinanced the note payable. The refinanced note payable bears interest at 3.74% and matures on July 17, 2031. Interest only payments are due through August 2021, at which time monthly principal and interest payments of \$10,957 are due. Additionally, under the terms of the agreement, the Organization may draw on additional funds with a maximum borrowing of \$1,841,169 and matures July 17, 2031.

In July 2021, the Organization drew an additional \$503,358. The outstanding balance at December 31, 2021 was \$1,824,263.

In July 2021, the Organization entered into a note payable with a financial institution. The note payable bears interest at 3.74% and matures on November 26, 2031 and allows the Organization to draw up to \$80,000. Interest only payments are due through October 2021, at which time monthly principal and interest payments of \$476 are due and is secured by a deed of trust on land and buildings. The outstanding balance at December 31, 2021 was \$79,418.

In May 2019, the Organization entered into a financing agreement for the purchase of equipment with Kubota Corporation. The agreement requires monthly principal payments of \$360 and bears no interest. All unpaid principal is due upon maturity in May 2023. The outstanding balance at December 31, 2021 was \$5,755.

In May 2020, the Organization entered into a financing agreement for the purchase of equipment with a financial institution. The agreement requires monthly principal payments of \$413 and bears no interest. All unpaid principal is due upon maturity in May 2025. The outstanding balance at December 31, 2021 was \$16,946.

Maturities of the notes payable for the years ending December 31 are as follows:

2022	\$	76,378
2023		76,054
2024		77,265
2025		77,122
2026		77,912
Thereafter		1,541,651
Unamortized Debt Issuance Costs		<u>(7,866)</u>
Total	\$	<u>1,918,516</u>

The carrying value of assets securing the note are \$2,610,397 at December 31, 2021.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

6. In-Kind Contributions

Goods and Services

The Organization is dependent upon in-kind contributions in the form of donated goods and personal services. Donated goods are recorded as contributions at the date of the donation and are expenses when the donated goods are placed into service or distributed.

Donated personal services are provided by a substantial number of volunteers, students in the University of North Carolina ("UNC") Wilmington/paws4people Service Dog Training Program (SDTP), and inmate trainers in the paws4prisons® in the course of and support of the Organization's operations and programs. The majority of those contributed services meet the criteria for recognition in the financial statements. Accounting principles generally accepted in the United States ("U.S. GAAP") allows recognition of contributed services if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Management has determined that donated services with an estimated fair value of \$6,371,987 for the year ended December 31, 2021, met the criteria and are included in in-kind contributions in the statement of activities. The sources of the donated services for the year ended December 31, 2021 are as follows:

UNC Wilmington/paws4people SDTP	\$ 2,539,449
paws4prisons®	<u>3,832,538</u>
Total	<u>\$ 6,371,987</u>

Canines

The Organization spends approximately two years to raise, train, place, and certify a Service Dog or Facility Dog with a Client or Handler.

The Organization spends between one and two years raising, training, and placing an Emotional Support Dog with Handler and a Breeding Dog with a Custodian.

The Organization spends four months to a year to train dogs placed as pets with Custodians.

The cost to raise, train, and place Service Dogs, Facility Dogs, Emotional Support Dogs, and Breeding Dogs is capitalized and depreciated over the eight-year service life of each Dog beginning at conditional custody placement of that Dog. The cost of food, housing, veterinary services, medication, grooming, training aids such as collars and leashes, and annual re-certifications (Service Dogs and Facility Dogs only) are considered incidental to the cost of training and are expensed as incurred.

The cost to raise, train, and place a dog placed as a pet is capitalized and depreciated over a three year contractual term. Ownership is transferred to the Custodian at the end of the three-year placement term. The cost of food, housing, veterinary services, medication, grooming, and training aids such as collars and leashes are considered incidental to the cost of training and are expensed as incurred.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

6. In-Kind Contributions (Continued)

Canines (Continued)

Acquisition, whelping, and Puppy Development training costs (first five months of the canine's life) range from \$9,000 to \$14,000 per canine depending upon whether the canine was bred within the Organization's Breeding Program or received through donation or acquisition from a specially chosen breeder. For the next 5-15 months, the canines undergo obedience and skills training in paws4prisons®. In months 16-24, the Dogs receive Public Access Training, the majority of which is accomplished through the UNCW/paws4people SDTP.

During months 18-24, Clients and Service Dogs In-Training participate in the Organization's proprietary process known as Intervention Transfer TrainingSM during which the Client learns to utilize his/her Service Dog In-Training to control, regulate, and mitigate®, his/her disability symptom set.

Service Dogs are trained to provide highly specialized and customized service to mitigate the effects of an individual's physical, neurological, psychological, or other medical related disability or disabilities. The Service Dog provides help in conducting everyday life skills, thus enabling the Client to perform more independently than they otherwise would without a Service Dog.

Facility Dogs are trained for placement with professionals and volunteers who use the Facility Dog in workplace or volunteer settings to provide animal assisted interventions, which are designed to promote improvement in physical, social, emotional, and/or cognitive functioning of the individual(s) involved and in which the Handler-Facility Dog Team is an integral part.

Handler Training is the process whereby each Handler learns to utilize and integrate his/her Facility Dog In-Training into the professional/volunteer services and workplace/volunteer setting(s) to provide animal assisted interventions.

Service Dogs and Facility Dogs receive at least 2,100 hours of training at hourly rates ranging from \$9.25 for paws4prisons® inmate trainers to \$75 for the Organization's certified staff trainers. The cost to train each Service Dog ranges from \$90,000 to \$102,000 depending on the Service Dog's certification. The cost to train each Facility Dog ranges from \$60,000 to \$86,000, depending on the Facility Dog's certification.

Emotional Support Dogs are trained to provide emotional support to Handlers within their own homes and other canine-friendly environments. Emotional Support Dogs receive between 240 and 1,200 hours of training at hourly rates ranging from \$9.25 for paws4prisons® Program inmate trainers to \$75 for the Organization's certified staff trainers. Due to the variation in the number of hours trained, the cost to train each Emotional Support Dog ranges from \$55,000 to \$71,000 per canine.

The Organization also trains Breeding Dogs. Breeding Dogs receive training at hourly rates ranging from \$9.25 for paws4prisons® inmate trainers to \$75 for the Organization's certified staff trainers. Due to the variation in the number of hours trained, the cost to train each Breeding Dog ranges from \$23,000 to \$77,000 per canine.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

6. In-Kind Contributions (Continued)

Canines (Continued)

Due to the variation in the age at placement (puppy or adult) and the number of hours trained before placement, the cost associated with canines placed as pets ranges from \$9,000 to \$26,000 per pet.

The Organization retains sole ownership rights for the lifetime of each Service Dog, Facility Dog, Emotional Support Dog, and Breeding Dog, respectively.

At times, a canine may be returned from its Client of Handler for various reasons. At this time, the canine is considered an Inactive Dog and no additional depreciation is taken. The Organization re-trains the canine as considered necessary and places the canine with a new Client of Handler. Upon replacement, depreciation of the canine is resumed.

A Client or Handler may request ownership rights to a Service Dog or Facility Dog after retirement of the canine. paws4people will determine in its sole discretion whether and under what circumstances to transfer ownership rights of the canine after his/her retirement.

A Handler may request ownership rights to an Emotional Support Dog after eight years of conditional custody placement. paws4people will determine in its sole discretion whether and under what circumstances to transfer ownership rights of the canine.

A Custodian may request ownership rights to a Breeding Dog after he/she is neutered/spayed. paws4people will determine in its sole discretion whether and under what circumstances to transfer ownership rights of the Breeding Dog.

At December 31, 2021, the Organization had a total of 61 canines in training and 283 canines under post-placement management. Of the 283 canines under post-placement management: 177 are Assistance Dogs; 54 are Emotional Support Dogs; 25 are Facility Dogs; and 27 are Breeding Dogs.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of December 31, 2021:

Subject to Expenditure for Specified Purpose:	
Tractor Supply – Canine Food	\$ <u>51,917</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the year ended December 31, 2021:

Satisfaction of Purpose Restrictions:	
Federal Grant – Wounded Warrior	
Service Dog Program	\$ 486,915
Tractor Supply – Canine Food	<u>27,406</u>
Total	<u>\$ 514,321</u>

8. Uncertainties

As a result of the COVID-19 outbreak in the United States, economic uncertainties have arisen which may have a negative impact on the Organization's financial results in the future. The extent of the impact of COVID-19 on the operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on customers, employees and vendors, all of which are uncertain at this time. The extent to which COVID-19 may impact the Organization's financial condition or results in the future is uncertain.

9. Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through July 20, 2022, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization was awarded a Wounded Warrior Service Dog Program Grant VIII in the amount of \$734,864 for the period July 1, 2022 to June 30, 2023.



Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Trustees
paws4people, Inc.
Wilmington, North Carolina

We have audited the financial statements of paws4people, Inc. as of and for the year ended December 31, 2021, and our report thereon dated July XX, 2022, which expressed an unmodified opinion on those financial statements, appears on pages 1-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The nonaccounting information on page 22, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The nonaccounting information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Thomas, Judy & Ducka, P.A.

Durham, North Carolina
July 20, 2022

paws4people, Inc.
SCHEDULE OF COST AND APPRAISED VALUE
December 31, 2021

	<u>Cost Basis</u>	<u>Appraised Value</u>
Property and Equipment:		
Land	\$ 678,220	\$ 868,115
Buildings and Improvements	1,949,150	1,921,263
Furniture and Equipment	40,116	17,011
Vehicles	218,416	130,843
	<u>\$ 2,885,902</u>	<u>\$ 2,937,232</u>