

paws4people, Inc.

Financial Statements

*For the Year Ended June 30, 2017
(with Comparative Totals for 2016)*



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
paws4people, Inc.

We have audited the accompanying financial statements of paws4people, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of paws4people, Inc. as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the paws4people, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 23, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eamy & Company, L.L.P.

Wilmington, North Carolina
September 20, 2017

paws4people, Inc.
Statement of Financial Position
As of June 30, 2017

	2017				2016
	Unrestricted		Temporarily Restricted	Total	Comparative Total
	Operations	Canines			
ASSETS					
Current Assets					
Cash & cash equivalents	\$ 421,779	\$ -	\$ -	\$ 421,779	\$ 341,757
Accounts receivable	-	-	-	-	41,302
Investments (Note 4)	24,573	-	-	24,573	20,531
Total Current Assets	<u>446,352</u>	<u>-</u>	<u>-</u>	<u>446,352</u>	<u>403,590</u>
Canine Assets					
Active service - private placement					
Assistance Dogs	-	7,869,364	-	7,869,364	5,755,296
Facility Dogs	-	625,952	-	625,952	625,952
Emotional Support Dogs	-	1,138,093	-	1,138,093	359,200
Less: Accumulated depreciation	-	(3,453,603)	-	(3,453,603)	(2,362,273)
Total Canines in Active Service	-	6,179,806	-	6,179,806	4,378,175
Training/breeding program					
	-	2,700,821	-	2,700,821	1,048,616
Total Canine Assets	<u>-</u>	<u>8,880,627</u>	<u>-</u>	<u>8,880,627</u>	<u>5,426,791</u>
Property					
Vehicles & equipment	75,784	-	-	75,784	41,909
Less: Accumulated depreciation	(33,648)	-	-	(33,648)	(24,425)
Net Property	<u>42,136</u>	<u>-</u>	<u>-</u>	<u>42,136</u>	<u>17,484</u>
Total Assets	<u>\$ 488,488</u>	<u>\$ 8,880,627</u>	<u>\$ -</u>	<u>\$ 9,369,115</u>	<u>\$ 5,847,865</u>
LIABILITIES & NET ASSETS					
Current Liabilities					
Accounts payable	\$ 10,802	\$ -	\$ -	\$ 10,802	\$ 30,515
Notes payable (Note 5)	1,085	-	-	1,085	14,188
Total Current Liabilities/Total Liabilities	<u>11,887</u>	<u>-</u>	<u>-</u>	<u>11,887</u>	<u>44,703</u>
Net Assets					
Unrestricted	476,601	8,880,627	-	9,357,228	5,771,335
Temporarily restricted	-	-	-	-	31,827
Total Net Assets	<u>476,601</u>	<u>8,880,627</u>	<u>-</u>	<u>9,357,228</u>	<u>5,803,162</u>
Total Liabilities & Net Assets	<u>\$ 488,488</u>	<u>\$ 8,880,627</u>	<u>\$ -</u>	<u>\$ 9,369,115</u>	<u>\$ 5,847,865</u>

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Statement of Activities
For the Year Ended June 30, 2017

	2017			2016 Comparative Total	
	Unrestricted		Temporarily Restricted		Total
	Operations	Canines			
PUBLIC SUPPORT & REVENUE					
Public support (Note 2)	\$ 1,182,667	\$ -	\$ -	\$ 1,182,667	\$ 487,622
In-kind goods & services	135,016	-	-	135,016	703,889
Fundraising, net of direct expense	10,578	-	-	10,578	-
Program service revenue	3,088	-	-	3,088	63,974
Miscellaneous revenue	14,229	-	-	14,229	-
Investment earnings	1,014	-	-	1,014	387
Net assets released from restriction	31,827	-	(31,827)	-	-
Total Public Support & Revenue	<u>1,378,419</u>	<u>-</u>	<u>(31,827)</u>	<u>1,346,592</u>	<u>1,255,872</u>
OPERATING EXPENSES					
Program	1,142,893	-	-	1,142,893	844,486
Administrative	56,928	-	-	56,928	63,510
Fundraising	35,925	-	-	35,925	43,082
Total Operating Expenses	<u>1,235,746</u>	<u>-</u>	<u>-</u>	<u>1,235,746</u>	<u>951,078</u>
Change in Net Assets Before In-Kind Canine & Other	<u>142,673</u>	<u>-</u>	<u>(31,827)</u>	<u>110,846</u>	<u>304,794</u>
IN-KIND CANINE TRAINING & CARE REVENUE					
In-kind paws4prisons canine training	-	5,470,925	-	5,470,925	3,280,800
In-kind UNCW canine training	-	1,568,943	-	1,568,943	-
Total In-Kind Canine Training & Care Revenue	<u>-</u>	<u>7,039,868</u>	<u>-</u>	<u>7,039,868</u>	<u>3,280,800</u>
IN-KIND CANINE TRAINING & CARE EXPENSE					
In-kind canine training & care expense	-	2,494,701	-	2,494,701	492,858
Total In-Kind Canine Training & Care Expense	<u>-</u>	<u>2,494,701</u>	<u>-</u>	<u>2,494,701</u>	<u>492,858</u>
Change in Net Assets Before Other Revenue (Expense)	<u>142,673</u>	<u>4,545,167</u>	<u>(31,827)</u>	<u>4,656,013</u>	<u>3,092,736</u>
OTHER REVENUE (EXPENSE)					
Unrealized gain (loss) on investments	(1,204)	-	-	(1,204)	-
Gain (loss) on sale of property	-	-	-	-	(1,667)
Depreciation:					
Real property	(9,412)	-	-	(9,412)	(1,480)
Canines	-	(1,091,331)	-	(1,091,331)	(847,448)
Total Other Revenue (Expense)	<u>(10,616)</u>	<u>(1,091,331)</u>	<u>-</u>	<u>(1,101,947)</u>	<u>(850,595)</u>
Change in Net Assets	132,057	3,453,836	(31,827)	3,554,066	2,242,141
Net Assets (Deficit), Beginning	<u>344,544</u>	<u>5,426,791</u>	<u>31,827</u>	<u>5,803,162</u>	<u>3,561,021</u>
Net Assets (Deficit), Ending	<u>\$ 476,601</u>	<u>\$ 8,880,627</u>	<u>\$ -</u>	<u>\$ 9,357,228</u>	<u>\$ 5,803,162</u>

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2017

	2017				Total	2016 Comparative Total
	Program		Administrative	Fundraising		
	Operations	Canines				
Expenses						
Compensation:						
Officers	\$ 55,350	\$ -	\$ 11,070	\$ 7,380	\$ 73,800	\$ 63,000
Salaries & wages	234,723	-	9,394	12,810	256,927	165,422
Payroll taxes & fees	26,962	-	-	-	26,962	24,476
Fees for Service:						
Accounting services	3,886	-	9,514	-	13,400	17,325
Legal services	3,149	-	7,709	-	10,858	4,250
Program management & other	143,064	-	7,377	-	150,441	75,202
Advertising	-	-	-	15,735	15,735	19,653
General Operation Expenses:						
Office expense	17,861	-	3,892	-	21,753	23,408
Information technology	26,427	-	7,972	-	34,399	14,083
Occupancy	51,518	-	-	-	51,518	48,076
Facility maintenance	59,846	-	-	-	59,846	-
Insurance	33,714	-	-	-	33,714	15,801
Travel & transportation	23,563	-	-	-	23,563	60,385
Program management & support services	106,704	-	-	-	106,704	83,414
Canine operations & care	158,620	-	-	-	158,620	125,552
In-kind goods & services	135,016	-	-	-	135,016	211,031
Miscellaneous expenses	62,490	-	-	-	62,490	-
Total Operating Expenses	<u>1,142,893</u>	<u>-</u>	<u>56,928</u>	<u>35,925</u>	<u>1,235,746</u>	<u>951,078</u>
Depreciation						
Real property	9,412	-	-	-	9,412	1,480
Canines	-	1,091,331	-	-	1,091,331	847,448
Total Depreciation Expense	<u>9,412</u>	<u>1,091,331</u>	<u>-</u>	<u>-</u>	<u>1,100,743</u>	<u>848,928</u>
Total Operating & Depreciation Expenses	<u>1,152,305</u>	<u>1,091,331</u>	<u>56,928</u>	<u>35,925</u>	<u>2,336,489</u>	<u>1,800,006</u>
In-kind training & care expense	<u>-</u>	<u>2,494,701</u>	<u>-</u>	<u>-</u>	<u>2,494,701</u>	<u>492,858</u>
Total Functional Expenses	<u>\$ 1,152,305</u>	<u>\$ 3,586,032</u>	<u>\$ 56,928</u>	<u>\$ 35,925</u>	<u>\$ 4,831,190</u>	<u>\$ 2,292,864</u>

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2017

	2017			2016 Comparative Total	
	Unrestricted		Temporarily Restricted		Total
	Operations	Canines			
Cash Flows From Operating Activities					
Cash Collections for:					
Contributions & other	\$ 1,251,864	\$ -	\$ -	\$ 1,251,864	
Investment income	1,014	-	-	1,014	
Less: Cash Payments for:					
Total expenses	<u>(1,131,730)</u>	<u>-</u>	<u>-</u>	<u>(716,112)</u>	
Net Cash Provided (Used) By Operating Activities	<u>121,148</u>	<u>-</u>	<u>-</u>	<u>287,427</u>	
Cash Flows From Investing Activities					
Increase in investments	(26)	-	-	(10,547)	
Purchase of property & equipment	<u>(27,997)</u>	<u>-</u>	<u>-</u>	<u>(14,898)</u>	
Net Cash Provided (Used) By Investing Activities	<u>(28,023)</u>	<u>-</u>	<u>-</u>	<u>(25,445)</u>	
Cash Flows From Financing Activities					
Payments on notes payable	<u>(13,103)</u>	<u>-</u>	<u>-</u>	<u>(10,336)</u>	
Net Cash Provided (Used) By Financing Activities	<u>(13,103)</u>	<u>-</u>	<u>-</u>	<u>(10,336)</u>	
Net Increase (Decrease) in Cash	80,022	-	-	251,646	
Cash & Cash Equivalents, Beginning	<u>341,757</u>	<u>-</u>	<u>-</u>	<u>90,111</u>	
Cash & Cash Equivalents, Ending	<u>\$ 421,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 341,757</u>	
Reconciliation of Change in Net Assets to Cash Provided (Used) By Operating Activities:					
Change in net assets	\$ 132,057	\$ 3,453,836	\$ (31,827)	\$ 3,554,066	
Depreciation	9,412	1,091,331	-	1,100,743	
In-kind donations, net of expense	(5,220)	(4,545,167)	-	(4,550,387)	
Unrealized (gain) loss on investments	1,204	-	-	1,204	
(Gain) loss on sale of property	-	-	-	-	
(Increase) Decrease in:					
Accounts receivable, net of bad debt	3,408	-	31,827	35,235	
Increase (Decrease) in:					
Accounts payable	<u>(19,713)</u>	<u>-</u>	<u>-</u>	<u>(19,713)</u>	
Net Cash Provided (Used) By Operating Activities	<u>\$ 121,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,427</u>	
Supplemental Disclosure					
Interest paid				<u>\$ -</u>	

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Notes to Financial Statements
June 30, 2017

1. ORGANIZATION

paws4people, Inc. (the "Organization") is a non-stock 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'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-Assistance Dog team or handler-Facility Dog team for the duration of the team's career.

The Organization specializes in training customized Assistance Dogs for two general groups: children and adolescents with physical, neurological, psychiatric, or emotional disabilities; and Veterans and Service Members with 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 trains, certifies, and places Facility Dogs with specific individuals who will use the Facility Dog within his/her profession and/or volunteer activities to provide educational instruction or therapeutic interventions, medical or environmental aid, methodologies to students with "special needs," or support to individuals with a physical, neurological, psychological, or other medical related disability or disabilities.

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

All charitable gifts to the Organization or any of its programs or legal entities are considered unrestricted, 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 unrestricted charitable gifts are used to fund the entirety of the Organization; its operations, programs, and services; and future growth.

In July 2015, the Organization formed three single member limited liability companies (SMLLCs) under North Carolina law: PAWS PTS|MST Centers, LLC; paws4prisons, LLC; and paws4seniors, LLC. Each of the Organization's SMLLCs is regarded by the IRS as a program of the Organization. The IRS considers a charitable gift to a SMLLC to be a charitable gift to the Organization. The Organization is the donee organization for purposes of the substantiation and disclosure required by the IRS.

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Accordingly, contributions to the Organization may be deductible by donors and related purpose income is exempt from income tax. The Organization files an information income tax return, IRS Form 990; generally, the return is subject to examination for a period of three years from the date filed. Management believes the oldest open tax year is 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations. Accordingly, revenue is recorded when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness and understandability of the financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors as follows:

- a) **Unrestricted net assets** are resources available to support operations and the canines. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- b) **Temporarily restricted net assets** are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use, as is the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

paws4people, Inc.
Notes to Financial Statements
June 30, 2017

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings, and money market accounts and short-term certificates of deposits with maturities of three months or less. Cash and cash equivalents are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Operating - checking	\$ 109,897	\$ 195,962
Savings	311,327	145,352
Petty cash	555	443
Total Cash & Cash Equivalents	<u>\$ 421,779</u>	<u>\$ 341,757</u>

Investments

Investments are recorded at fair market value using quoted market prices.

Real Property, Canine Assets, and Depreciation

Equipment, furniture, and fixtures are recorded in the statement of financial position at cost if purchased and at estimated market value at date of gift if donated. Equipment is capitalized if it has a cost of \$500 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets from five to seven years.

Canine assets are recorded in the statement of financial position at the estimated cost of training and support from acquisition through the date the canine is placed in service. Canines are considered construction in process until the training process is complete (typically two years). At that point, the canines are placed in service and depreciated over a three to eight year timeframe depending on the type of service the canine will perform. The following is a comparative schedule of costs incurred to date for all canines in training and in active service.

	<u>Prior Year Comparative Total</u>	<u>During the Year</u>	<u>Total as of 06/30/17</u>
Canines in Active Service:			
Assistance Dogs (AD)	\$ 5,755,296	\$ 2,114,068	\$ 7,869,364
Facility Dogs (FD)	625,952	-	625,952
Emotional Support Dogs (ESD)	359,200	778,893	1,138,093
	<u>6,740,448</u>	<u>2,892,961</u>	<u>9,633,409</u>
Less: Accumulated Depreciation			
All Certifications	<u>(2,362,273)</u>	<u>(1,091,330)</u>	<u>(3,453,603)</u>
Total Canines in Active Service	4,378,175	1,801,631	6,179,806
Canines in Training/Breeding Program	<u>1,048,616</u>	<u>1,652,205</u>	<u>2,700,821</u>
Total Canines	<u>\$ 5,426,791</u>	<u>\$ 3,453,836</u>	<u>\$ 8,880,627</u>

paws4people, Inc.
Notes to Financial Statements
June 30, 2017

Public Support and Revenue

The following represents the allocation of public support as of June 30:

	<u>2017</u>
Public Support:	
Federated campaigns	\$ 275,985
Government grant - (Uniformed Services University of the Health Sciences)	166,667
Contributions:	
Corporate sponsors	342,458
Third party fundraising	176,476
General giving	221,081
Total Public Support	<u>\$ 1,182,667</u>

Contributions

Unrestricted contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Organization.

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets, unless use of the contributed assets is specifically restricted by the donor and the Organization's Executive Director. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due and therefore, are reported as temporarily restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional; that is, until all conditions on which they depend are substantially met. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the Organization has an irrevocable right to the bequest.

paws4people, Inc.
Notes to Financial Statements
June 30, 2017

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities, to include education and awareness building, is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefitted using objective basis, such as time spent.

Administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Administrative activities include those that provide governance (Board of Trustees), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

Fundraising and advertising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year then ended, from which the summarized information was derived. Certain reclassifications of prior year comparative amounts have been made in order to conform to the current year presentation.

Subsequent Events

Subsequent events have been evaluated through September 20, 2017, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

3. GIFTS-IN-KIND CONTRIBUTIONS – CANINES

The Organization is dependent on in-kind contributions in the form of donated materials and personal services. Donated supplies are recorded as contributions at the date of gift and are expensed when the donated items are placed into service or distributed.

As indicated in Note 1, personal services are provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Organization's program operations. The majority of those contributed services meet the criteria for recognition in the financial statements. 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 \$7,039,868 for 2017 and \$3,280,800 for 2016 met the criteria and are included in in-kind contributions in the statement of activities. Donated services are not a reportable expense on Federal Form 990, *Return of Organization Exempt From Income Tax*. Schedule D of the Organization's Form 990 for the year ended June 30, 2017 provides a reconciliation of revenue per the audited financial statements to revenue as reported on Form 990. The following paragraphs discuss the accounting for donated services related to canines.

The cost to breed, acquire, raise, train, and place Assistance Dogs, Facility Dogs, and Emotional Support Dogs is capitalized and depreciated over the service life of each Dog as follows: three years (placements before May 31, 2017) or eight years (placements after May 31, 2017) for Emotional Support Dogs and eight years for Assistance Dogs and Facility Dogs. The cost of food, housing, veterinary services, medication, grooming, training aids such as collars and leashes, and annual re-certifications are considered incidental to the cost of training and are expensed as incurred.

Acquisition, whelping, and initial training costs (first five months of the canine's life) range from \$1,414 to \$12,188 per canine depending on whether the canine was bred within the Organization's breeding program, purchased from an outside breeder, or adopted from a shelter.

For the next 12-15 months, the canines undergo standard and specialized training in the paws4prisons Program, which varies depending on whether the canine will become an Assistance Dog, a Facility Dog, or an Emotional Support Dog.

Emotional Support Dogs are trained to provide general assistance, companionship, and emotional support. They are typically placed at the end of a six-month to two-year training period. Their ownership status is generally transferred to their handler three years after placement (placements before May 31, 2017) or eight years after placement (placements after May 31, 2017). The cost to train an Emotional Support Dog ranges from \$7,346 to \$54,782 depending on the source of acquisition and the type and extent of service the Dog will provide when placed in service. Emotional Support Dogs receive between 240 hours of training to as much as 1,200 hours of training at hourly rates ranging from \$3.75 for prison inmates to \$75.00 for certified canine trainers.

paws4people, Inc.
Notes to Financial Statements
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Assistance Dogs are trained to provide highly specialized service to individuals with physical or psychological disabilities/diagnoses. Facility Dogs are trained to provide animal assisted intervention in specific environments, such as professional practices, schools, fire/police departments, and other community settings. Both types of Dogs are typically placed into service at the end of a two-year training program and are retired after eight years of service. The cost to train each Assistance Dog and Facility Dog ranges from \$59,152 to \$63,641 depending on the source of acquisition and the type of service the Dog will provide when placed in service.

Assistance Dogs and Facility Dogs receive at least 2,100 hours of training at hourly rates ranging from \$3.75 for prison inmates to \$75.00 for certified canine trainers.

As of June 30, 2017, the Organization had a total of 700 canines in its various paws4people Assistance Dog Training Programs/Internal Breeding Programs (113 Dogs) or under post-placement management (587 Dogs).

Of these 587 Dogs under post-placement management, 308 are Assistance Dogs, 110 are Facility Dogs, and 169 are Emotional Support Dogs.

Individual canines are reviewed for asset impairment when a significant change in its use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices 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 or liabilities in active markets;
- quoted prices for identical or similar assets in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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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 to the valuation methodology are unobservable and significant to the fair value measurement.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157.

In determining fair value, the Organization uses various valuation approaches within the SFAS No. 157 fair value measurement framework. For example, equity securities and equity mutual funds listed on national markets or exchanges are valued at the last sales price or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

Fair values of assets classified by investment category and measured on a recurring basis are as follows as of June 30:

	2017			
	Total	Level 1	Level 2	Level 3
Precious metals - Silver	\$ 10,026	\$ 10,026	\$ -	\$ -
Precious metals - Gold	8,705	8,705	-	-
Common stock	5,842	5,842	-	-
Total Assets at Fair Value	<u>\$ 24,573</u>	<u>\$ 24,573</u>	<u>\$ -</u>	<u>\$ -</u>

	2016			
	Total	Level 1	Level 2	Level 3
Precious metals - Silver	\$ 11,262	\$ 11,262	\$ -	\$ -
Precious metals - Gold	9,269	9,269	-	-
Common stock	-	-	-	-
Total Assets at Fair Value	<u>\$ 20,531</u>	<u>\$ 20,531</u>	<u>\$ -</u>	<u>\$ -</u>

5. NOTES PAYABLE TO RELATED PARTIES

As of June 30, 2017, the Organization had notes payable totaling \$1,085, which were made by two Trustees of the Board of Trustees. The loans have no stated interest rate and no due date.

In January 2012, the Organization's Board of Trustees passed a resolution stating that donations received from individuals or organizations in support of a named paws4people, Inc. program shall not be used to repay these notes. Loan payments shall only be made using funds specifically designated as unrestricted.

6. LEASES

The Organization entered into an operating lease agreement on September 21, 2012 to lease a 2,021 square foot office building in Hampstead, North Carolina for its Puppy Development Center. On December 21, 2012, the Organization amended the lease to include an additional 1,800 square foot warehouse. The Organization has an option to renew the lease for three additional one year terms when the initial renewal term commences on October 1, 2017. The monthly rent in the initial renewal term will be \$2,700.

Future minimum lease payments of \$7,821 are payable in the upcoming year.

7. CONTINGENCIES

From time to time, the Organization may be a party to a claim, a legal action, and/or a complaint arising in the ordinary course of the business. The Organization determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Organization analyzes any estimated losses in consultation with outside counsel handling its defense. It is management's opinion that all such asserted and unasserted claims are without merit or involve such amounts that an unfavorable disposition would not have a material adverse effect on the Organization's financial position or results of operations.

The Organization reasonably believes that it has adequate insurance coverage for a claim, a legal action, and/or a complaint arising in the ordinary course of business.