

**paws4people, Inc.**

Financial Statements

June 30, 2018

## CONTENTS

	<u>Page</u>	<u>Schedule</u>
INDEPENDENT AUDITORS' REPORT	1 - 2	
FINANCIAL STATEMENTS		
Statement of Financial Position	3 - 4	
Statement of Activities	5	
Statement of Functional Expenses	6	
Statement of Cash Flows	7 - 8	
NOTES TO FINANCIAL STATEMENTS	9 - 17	
SUPPLEMENTARY INFORMATION		
Independent Auditors' Report on Supplementary Information	18	
Schedule of Cost and Appraised Value	19	1

Caroline P. Abbott  
Jeffrey A. Brovet  
Thomas R. Crawford  
Amanda P. Habich  
Kristen T. Hoyle



David A. Johnson  
Chris P. Judy  
Geri H. Lail  
James K. Tiller  
David W. Tucker

## INDEPENDENT AUDITORS' REPORT

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

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 June 30, 2018, 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.

### Auditors' 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 auditors' 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, 2018, 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.

### **Correction of Error**

As described in Note 9 to the financial statements, prior to the year ended June 30, 2018 the Organization had not recognized and recorded contribution, grant, and pledge receivables. Additionally, the Organization had capitalized costs and recognized in-kind revenue associated with the care and training of canines who are not owned by but certified by the Organization, canines who are no longer certified by the Organization, retired and deceased canines, and paws4prisons Shelter-to-Pet Program canines who were previously included in the Organization's inventory. Our opinion is not modified with respect to that matter.

*Thomas, Judy & Duck, P.A.*

December 7, 2018

**paws4people, Inc.**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2018

<u>ASSETS</u>	Unrestricted		Temporarily Restricted	Total
	Operations	Canines		
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 410,972	\$	\$	\$ 410,972
Pledge Receivable			25,000	25,000
Federal Grant/Wounded Warrior Service Dog Program Receivable			100,000	100,000
Tractor Supply/4health Gift Card Inventory	17,914			17,914
Investments	24,991			24,991
Total Current Assets	453,877		125,000	578,877
<b>Canine Assets:</b>				
<b>Canines in Active Service:</b>				
Assistance Dogs		6,136,187		6,136,187
Facility Dogs		440,312		440,312
Emotional Support Dogs		1,039,088		1,039,088
Less: Accumulated Depreciation		(1,360,106)		(1,360,106)
Total Canines in Active Service		6,255,481		6,255,481
Breeding and Training Programs		2,513,313		2,513,313
Total Canine Assets, Net		8,768,794		8,768,794
<b>Property and Equipment:</b>				
Land	489,880			489,880
Buildings and Improvements	981,839			981,839
Furniture and Equipment	11,957			11,957
Vehicles	75,784			75,784
Less: Accumulated Depreciation	(51,306)			(51,306)
Property and Equipment, Net	1,508,154			1,508,154
Total Assets	\$ 1,962,031	\$ 8,768,794	\$ 125,000	\$ 10,855,825

See Accompanying Notes

	<u>Unrestricted</u>		<u>Temporarily</u>	<u>Total</u>
	<u>Operations</u>	<u>Canines</u>	<u>Restricted</u>	
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable	\$ 2,917	\$	\$	\$ 2,917
Due to Related Party	2,953			2,953
Note Payable, Current Portion	<u>35,634</u>			<u>35,634</u>
Total Current Liabilities	41,504			41,504
Note Payable, Net of Current Portion	<u>1,151,925</u>			<u>1,151,925</u>
Total Liabilities	<u>1,193,429</u>			<u>1,193,429</u>
Net Assets:				
Unrestricted	768,602	8,768,794		9,537,396
Temporarily Restricted			<u>125,000</u>	<u>125,000</u>
Total Net Assets	<u>768,602</u>	<u>8,768,794</u>	<u>125,000</u>	<u>9,662,396</u>
Total Liabilities and Net Assets	<u>\$ 1,962,031</u>	<u>\$ 8,768,794</u>	<u>\$ 125,000</u>	<u>\$ 10,855,825</u>

See Accompanying Notes

**paws4people, Inc.**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2018

	Unrestricted		Temporarily Restricted	Total
	Operations	Canines		
Support and Revenue:				
Public Support	\$ 1,084,475	\$	\$ 40,000	\$ 1,124,475
Federal Grant/Wounded Warrior Service				
Dog Program Revenue			300,000	300,000
In-Kind Goods and Services	357,248			357,248
Fundraising, Net of Direct Expense of \$42,962	26,130			26,130
Miscellaneous Revenue	23,813			23,813
Net Assets Released from Restriction	<u>373,333</u>		<u>(373,333)</u>	
Total Support and Revenue	1,864,999		(33,333)	1,831,666
Operating Expenses:				
Program	1,521,839			1,521,839
Administrative	114,407			114,407
Fundraising	<u>48,795</u>			<u>48,795</u>
Total Operating Expenses	<u>1,685,041</u>			<u>1,685,041</u>
Change in Net Assets				
Before In-Kind Canine and Other	179,958		(33,333)	146,625
In-Kind Canine Training Revenue and Expense:				
In-Kind Canine Training and Care Revenue		5,897,827		5,897,827
In-Kind Canine Training and Care Expense		<u>(2,948,915)</u>		<u>(2,948,915)</u>
Total In-Kind Canine Training and Care Revenue, Net		<u>2,948,912</u>		<u>2,948,912</u>
Other Income (Expense)				
Investment Income	1,283			1,283
Interest Expense	(4,725)			(4,725)
Depreciation	<u>(14,156)</u>	<u>(553,325)</u>		<u>(567,481)</u>
Total Other Expense, Net	<u>(17,598)</u>	<u>(553,325)</u>		<u>(570,923)</u>
Change in Net Assets	162,360	2,395,587	(33,333)	2,524,614
Net Assets, Beginning of Year as Previously Stated	476,601	8,880,627		9,357,228
Prior Period Adjustment	<u>129,641</u>	<u>(2,507,420)</u>	<u>158,333</u>	<u>(2,219,446)</u>
Net Assets, End of Year	<u>\$ 768,602</u>	<u>\$ 8,768,794</u>	<u>\$ 125,000</u>	<u>\$ 9,662,396</u>

See Accompanying Notes

**paws4people, Inc.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2018

	Program		Administrative	Fundraising	Total
	Operations	Canines			
Salaries and Wages	\$ 294,728	\$	\$ 74,624	\$ 23,576	\$ 392,928
Payroll Taxes and Fees	34,052		3,605	2,404	40,061
Employee Benefits	5,439				5,439
Contractors	132,163			6,785	138,948
Printing and Postage	4,045				4,045
Advertising	6,779			16,030	22,809
Office Expense	74,646		18,662		93,308
IT Expense	29,843		9,948		39,791
Canine Food, Grooming and Transportation	223,280				223,280
Travel and Transportation	169,281				169,281
Membership, Conferences and Certifications	19,649				19,649
Insurance	31,952				31,952
Professional Fees	42,884		7,568		50,452
Taxes, License, and Registration	3,807				3,807
Service Fees	9,052				9,052
Repairs and Maintenance	60,778				60,778
In-Kind, Goods and Services	357,248				357,248
Miscellaneous Expense	22,213				22,213
<b>Total Operating Expenses</b>	<b>1,521,839</b>		<b>114,407</b>	<b>48,795</b>	<b>1,685,041</b>
Canine In-Kind Expense		2,948,915			2,948,915
Depreciation	14,156	553,325			567,481
	<u>\$ 1,535,995</u>	<u>\$ 3,502,240</u>	<u>\$ 114,407</u>	<u>\$ 48,795</u>	<u>\$ 5,201,437</u>
<b>Total Expense</b>	<u>\$ 5,038,235</u>		<u>\$ 114,407</u>	<u>\$ 48,795</u>	<u>\$ 5,201,437</u>
	96.86%		2.20%	0.94%	100.00%

See Accompanying Notes



**paws4people, Inc.**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2018

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 2,524,614
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	567,481
In-Kind Canine Training and Care, Net Realized and Unrealized Gain on Investments	(2,948,912)
(418)	(418)
Changes in Assets and Liabilities that Provided (Used) Cash:	
Other Receivables	129,641
Pledge Receivable	50,000
Federal Grant/Wounded Warrior Service Dog Program Receivable	(16,667)
Tractor Supply/4health Gift Card Inventory	(17,914)
Accounts Payable	(7,885)
Due to Employee	1,868
	<u>281,808</u>
Net Cash Provided by Operating Activities	<u>281,808</u>
Cash Flows from Investing Activities:	
Purchase of Property and Equipment	<u>(280,021)</u>
Net Cash Used by Investing Activities	<u>(280,021)</u>
Cash Flows from Financing Activities:	
Increase in Debt Issuance Costs	(9,183)
Payments on Notes Payable	<u>(3,411)</u>
Net Cash Used by Financing Activities	<u>(12,594)</u>
Net Decrease in Cash and Cash Equivalents	(10,807)
Cash and Cash Equivalents, Beginning of Year	<u>421,779</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 410,972</u></u>

See Accompanying Notes

**paws4people, Inc.**  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2018  
(Continued)

Supplemental Disclosure of Cash Flow Information:

Cash Paid During the Year for Interest	<u>\$ 5,050</u>
--	-----------------

Supplemental Schedule of Noncash Investing and Financing Activities:

Purchase of Property and Equipment	\$ (1,480,021)
Less: Amount Financed with Note Payable	<u>1,200,000</u>

Cash Paid for Purchase of Property and Equipment	<u>\$ (280,021)</u>
--	---------------------

See Accompanying Notes

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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'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 and 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, places, and certifies Facility Dogs with professionals and volunteers who use the 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 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.

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 Internal Revenue Service ("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. Effective June 29, 2018, the Organization dissolved paws4prisons, LLC and paws4seniors, LLC and rolled all assets into its books and records.

Basis of Presentation

The Organization prepares its financial statements on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred. The financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under these provisions, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The Organization has also adopted FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Under these provisions, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions.

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 combined statements of financial position.

Contributions

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, services, and future growth.

The 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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts would be included in contribution revenue. The Organization has determined that at June 30, 2018, the adjustment to net present value is immaterial and has not recorded an adjustment.

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

Promises to Give (Continued)

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made and the uncollectible amounts are charged as a loss in the combined statements of activities. At June 30, 2018, allowance for uncollectible promises to give was \$0.

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 no cash equivalents at June 30, 2018.

Investments

Investments in marketable securities with readily determinable fair values and all investments in precious metals are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets 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.

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. As of June 30, 2018, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the combined financial statements. The Organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$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 restricted contributions. In the absence of such stipulations, contributions of equipment are recorded as unrestricted assets. 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

**paws4people, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

Depreciation expense associated with property and equipment totaled \$14,003 for the year ended June 30, 2018.

Canine Assets

Canine assets are recorded in the statement of financial position at the estimate cost of training from birth, donation, or acquisition through conditional custody placement under contract by the Organization with a Client or Handler. 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. Depreciation expense associated with canine assets totaled \$553,325 for the year ended June 30, 2018.

Advertising

The Organization expenses advertising costs when incurred. Advertising expense totaled \$24,517 for the year ended June 30, 2018.

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 insures up to \$250,000 for all accounts held at a single institution. As of June 30, 2018, the Organization's cash accounts were fully insured.

2. Investments

The Organization's investments consist of stocks and precious metals recorded at market value as of June 30, 2018:

	<u>Market Value</u>	<u>Cost</u>
Precious Metals	\$ 18,405	\$ 18,741
Common Stock	<u>6,586</u>	<u>5,363</u>
Total	<u>\$ 24,991</u>	<u>\$ 24,104</u>

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

3. 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. The Organization only Level 1 investments.

*Level 1 Fair Value Measurements*

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

4. Note Payable

On May 25, 2018, the Organization entered into a note payable with a financial institution. The note payable requires monthly principal and interest payments of \$8,136 and bears interest at a fixed rate of 5.25%. All unpaid interest and principal are due upon maturity in May 25, 2023. The note is secured by the real property and all improvements. The outstanding balance at June 30, 2018 was \$1,196,589.

Maturities of the note payable for the years ending June 30 are as follows:

2019	\$	35,634
2020		37,551
2021		39,570
2022		41,698
2023		1,042,136
Unamortized Debt Issuance Costs		<u>(9,030)</u>
Total	\$	<u>1,187,559</u>

The carrying value of assets securing the note are \$1,468,817 at June 30, 2018.

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

5. 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 UNC Wilmington/paws4people Service Dog Training Program (SDTP), and inmate trainers in the paws4prisons Program 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 \$5,897,827 for 2018 met the criteria and are included in in-kind contributions in the statement of activities.

Canines

The cost to breed, acquire, raise, train, and place Assistance Dogs, Facility Dogs, and Emotional Support Dogs is capitalized and depreciated over the eight year service life of each Dog. 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.

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.

Acquisition, whelping, and Puppy Development training costs (first five months of the canine's life) range from \$8,059 to \$12,188 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 the paws4prisons Program. In months 16-24, the canines receive Public Access Training, the majority of which is accomplished through the UNCW/paws4people Service Dog Training Program (SDTP).

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



**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

5. In-Kind Contributions (Continued)

Assistance 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 Assistance Dog provides help in conducting everyday life skills, thus enabling the Client to perform more independently than they otherwise would without an Assistance Dog.

Facility Dogs are trained for placement with professionals and volunteers who use the 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.

Assistance Dogs and Facility Dogs receive at least 2,100 hours of training at hourly rates ranging from \$3.75 for paws4prison Program inmate trainers to \$75 for the Organization's certified staff trainers. The cost to train each Assistance Dog and Facility Dog ranges from \$48,203 to \$64,361 depending on the Dog's certification.

Emotional Support Dogs are trained to provide emotional support and comfort to their 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 \$3.75 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 an Emotional Support Dog ranges from \$20,303 to \$55,502.

The Organization retains ownership of each canine and sole ownership rights for the lifetime of each canine. Client or Handler may request ownership rights of a canine after retirement of the canine and paws4people will determine in its sole discretion whether and under what circumstances to transfer ownership rights of the canine after his/her retirement.

As of fiscal year ended June 30, 2018, the Organization had a total of 494 canines in training (107 canines) and under post-placement management (387 canines). Of the 387 canines under post-placement management: 190 are Assistance Dogs; 11 are Facility Dogs; and 186 are Emotional Support Dogs.

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

6. Operating Leases

Effective September 21, 2012, the Organization leased a 2,021 square foot office building in Hampstead, North Carolina. On December 21, 2012, the Organization amended the Hampstead lease to include an additional 1,800 square foot warehouse. On October 1, 2017, the Organization executed an option to renew the Hampstead lease for three additional one-year terms. The initial one-year renewal term commenced on October 1, 2017. Subsequent to year end, the Hampstead lease was terminated by mutual agreement of the Organization and the owner/landlord effective September 12, 2018.

Additionally, the Organization has two month-to-month leases for additional office and storage space.

Rent expense related to these leases totaled \$43,970 for the year ended June 30, 2018.

7. Related Party Transactions

The Organization has outstanding loans due to two Trustees of the Board of Trustees. The loans have no stated interest rate and no due date. At June 30, 2018 the outstanding loan balances totaled \$2,953.

The Organization leases office space from two Trustees of the Board of Trustees on a month-to-month basis. Total lease expense was \$11,444 for the year ended June 30, 2018.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 are available for the following purposes:

Time Restrictions	\$ 25,000
Federal Grant/Wounded Warrior Service Dog Program	<u>100,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 125,000</u>

**paws4people, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018

9. Prior Period Adjustment

During the year ended June 30, 2018, the Organization discovered that it had not recognized and recorded contribution, grant, and pledge receivables. Additionally, the Organization discovered that it had capitalized costs and recognized in-kind revenue associated with the training and care of canines who are not owned by but certified by the Organization, canines who are no longer certified by the Organization, retired and deceased canines, and paws4prisons Shelter-to-Pet Program canines who were previously included in Organization's inventory. The Organization recorded adjustments to correct these errors. The adjustment resulted in the following changes to the Organization's June 30, 2017 financial statements:

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Pledge Receivable	\$	\$ 75,000	\$ 75,000
Federal Grant/Wounded Warrior Service Dog Program Receivable		83,333	83,333
Other Receivables		129,641	129,641
Canines in Active Services	6,179,806	(2,507,420)	3,672,386
Unrestricted Net Assets	9,357,228	(2,219,446)	7,137,782
Total Net Assets	9,357,228	(2,219,446)	7,137,782

10. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 7, 2018, which is the date the financial statements were available to be issued, and has determined there was nothing significant. See Note 6 for operating lease termination.

Caroline P. Abbott  
Jeffrey A. Brovet  
Thomas R. Crawford  
Amanda P. Habich  
Kristen T. Hoyle



David A. Johnson  
Chris P. Judy  
Geri H. Lail  
James K. Tiller  
David W. Tucker

**INDEPENDENT AUDITOR'S 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 June 30, 2018, and our report thereon dated December 7, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. 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, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*Thomas, Judy & Tucker, P.A.*

December 7, 2018

**paws4people, Inc.**  
**SCHEDULE OF COST AND APPRAISED VALUE**  
 June 30, 2018

	Cost Basis	Appraised Value
Property and Equipment:		
Land	\$ 489,880	\$ 842,342
Buildings and Improvements	981,839	1,725,979
Furniture and Equipment	11,957	7,685
Vehicles	75,784	31,652
	\$ 1,559,460	\$ 2,607,658