

paws4people, Inc.

Financial Statements

*For the Year Ended June 30, 2015
(with Comparative Totals for 2014)*



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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, 2015, 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, 2015, 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 paws4people, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eany & Company, L.L.P.

Wilmington, North Carolina
November 20, 2015

paws4people, Inc.
Statement of Financial Position
As of June 30, 2015

	2015			2014 Comparative Totals	
	Operations	Canines	Temporarily Restricted		Total
Assets					
Current Assets					
Cash	\$ 90,111	\$ -	\$ -	\$ 90,111	\$ 111,862
Investments (Note 4)	9,984	-	-	9,984	-
Total Current Assets	<u>100,095</u>	<u>-</u>	<u>-</u>	<u>100,095</u>	<u>111,862</u>
Canines					
In training	-	683,755	-	683,755	575,471
Breeding program	-	304,190	-	304,190	275,507
In service					
Service canines	-	3,442,122	-	3,442,122	1,990,634
Assistance canines	-	571,055	-	571,055	854,239
Less: Accumulated depreciation	-	(1,514,825)	-	(1,514,825)	(1,212,724)
Total Canines	<u>-</u>	<u>3,486,297</u>	<u>-</u>	<u>3,486,297</u>	<u>2,483,127</u>
Property					
Vehicles & equipment	31,011	-	-	31,011	26,011
Less: Accumulated depreciation	(25,278)	-	-	(25,278)	(23,477)
Net Property	<u>5,733</u>	<u>-</u>	<u>-</u>	<u>5,733</u>	<u>2,534</u>
Total Assets	<u>\$ 105,828</u>	<u>\$ 3,486,297</u>	<u>\$ -</u>	<u>\$ 3,592,125</u>	<u>\$ 2,597,523</u>
Liabilities & Net Assets					
Current Liabilities					
Accounts payable	\$ 6,580	\$ -	\$ -	\$ 6,580	\$ 6,580
Notes payable (Note 5)	24,524	-	-	24,524	38,438
Total Current Liabilities/					
Total Liabilities	<u>31,104</u>	<u>-</u>	<u>-</u>	<u>31,104</u>	<u>45,018</u>
Net Assets					
Unrestricted	74,724	3,486,297	-	3,561,021	2,552,505
Temporarily restricted	-	-	-	-	-
Total Net Assets	<u>74,724</u>	<u>3,486,297</u>	<u>-</u>	<u>3,561,021</u>	<u>2,552,505</u>
Total Liabilities & Net Assets	<u>\$ 105,828</u>	<u>\$ 3,486,297</u>	<u>\$ -</u>	<u>\$ 3,592,125</u>	<u>\$ 2,597,523</u>

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Statement of Activities
For the Year Ended June 30, 2015

	2015			Total	2014 Comparative Totals
	Operations	Canines	Temporarily Restricted		
Public Support & Revenue					
Grants, contributions, & bequests	\$ 425,603	\$ -	\$ -	\$ 425,603	\$ 325,598
Program revenue	27,057	-	-	27,057	-
Fundraising, net	91,617	-	-	91,617	88,932
Interest	165	-	-	165	82
Other	(180)	-	-	(180)	-
In-kind gifts & contributions	206,563	-	-	206,563	64,949
In-kind assistance	-	-	-	-	-
In-kind canine training	-	2,011,570	-	2,011,570	762,052
In-kind breeding program	-	-	-	-	275,507
Total Public Support & Revenue	<u>750,825</u>	<u>2,011,570</u>	<u>-</u>	<u>2,762,395</u>	<u>1,517,120</u>
Expenses					
Program	704,071	1,008,400	-	1,712,471	710,910
Administrative	21,046	-	-	21,046	13,169
Fundraising	20,362	-	-	20,362	20,792
Total Expenses	<u>745,479</u>	<u>1,008,400</u>	<u>-</u>	<u>1,753,879</u>	<u>744,871</u>
Change in Net Assets	5,346	1,003,170	-	1,008,516	772,249
Net Assets (Deficit)					
Beginning of year	69,378	2,483,127	-	2,552,505	1,780,256
End of year	<u>\$ 74,724</u>	<u>\$ 3,486,297</u>	<u>\$ -</u>	<u>\$ 3,561,021</u>	<u>\$ 2,552,505</u>

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2015

	2015			Total	2014
	Program	Administrative	Fundraising		Comparative Totals
Expenses					
Payroll & related	\$ 173,076	\$ -	\$ -	\$ 173,076	\$ 54,412
Program expense	68,486	-	-	68,486	10,440
Canine care & feeding	17,771	-	-	17,771	40,234
Kennel operations	115,370	-	-	115,370	85,981
In-kind supplies & other	630,026	-	-	630,026	64,949
Transportation	18,052	-	-	18,052	23,578
Travel	43,419	-	-	43,419	48,548
Office	1,539	10,297	-	11,836	8,986
Advertising	-	-	17,306	17,306	17,653
Insurance	15,966	-	-	15,966	6,527
Bank charges	-	626	3,056	3,682	3,787
Telephone & internet	10,305	-	-	10,305	6,119
Occupancy	26,684	-	-	26,684	9,915
Professional & contract fees	-	10,123	-	10,123	4,750
Dues & subscriptions	4,692	-	-	4,692	-
Total Direct Expenses	<u>1,125,386</u>	<u>21,046</u>	<u>20,362</u>	<u>1,166,794</u>	<u>385,879</u>
Depreciation	<u>587,085</u>	<u>-</u>	<u>-</u>	<u>587,085</u>	<u>358,992</u>
Total Expenses	<u>\$ 1,712,471</u>	<u>\$ 21,046</u>	<u>\$ 20,362</u>	<u>\$ 1,753,879</u>	<u>\$ 744,871</u>

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2015

	2015			2014 Comparative Totals
	Operations	Canines	Temporarily Restricted	
Cash Flows From Operating Activities				
Cash Collections for:				
Contributions & other	\$ 544,097	\$ -	\$ -	\$ 544,097
Investment income	165	-	-	165
Less: Cash Payments for:				
Total expenses	<u>(537,115)</u>	<u>-</u>	<u>-</u>	<u>(385,879)</u>
Net Cash Provided by (Used in) Operating Activities	<u>7,147</u>	<u>-</u>	<u>-</u>	<u>28,733</u>
Cash Flows From Investing Activities				
Increase in investments	(9,984)	-	-	(9,984)
Purchase of property & equipment	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>58,217</u>
Net Cash Provided by (Used in) Investing Activities	<u>(14,984)</u>	<u>-</u>	<u>-</u>	<u>58,217</u>
Cash Flows From Financing Activities				
Payments on notes payable	<u>(13,914)</u>	<u>-</u>	<u>-</u>	<u>(44,916)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(13,914)</u>	<u>-</u>	<u>-</u>	<u>(44,916)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(21,751)	-	-	42,034
Cash & Cash Equivalents				
Beginning of year	<u>111,862</u>	<u>-</u>	<u>-</u>	<u>69,828</u>
End of year	<u>\$ 90,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,862</u>
Reconciliation of Change in Net Assets to Cash Provided by (Used in) Operating Activities:				
Changes in net assets	\$ 5,346	\$ 1,003,170	\$ -	\$ 1,008,516
Depreciation	1,801	585,284	-	587,085
In-kind donations	-	(1,588,454)	-	(1,588,454)
Increase (Decrease) in:				
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 7,147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,733</u>
Interest paid				<u>\$ -</u>

The Accompanying Notes are an Integral Part of these Financial Statements

paws4people, Inc.
Notes to Financial Statements
June 30, 2015

1. ORGANIZATION

paws4people, Inc. (the "Organization") is a nonprofit corporation incorporated in the state of Virginia on July 6, 1999 and operating in Wilmington, North Carolina.

The Organization's mission is to enhance the lives of active-duty military service members, veterans, inmates (federal and state), children/students, and senior citizens by using the "special powers" of canine companionship and service displayed by highly trained assistance dogs, through specialized educational, private placement, therapeutic, and visitation programs. The Organization achieves its mission through the efforts of a network of over 200 volunteers and over 300 trained, certified, and insured assistance canines. These volunteers and canines are trained and certified to provide educational, therapeutic, training, advocacy, and visitation programs to people with disabilities throughout the mid-Atlantic and southeast regions of the United States. paws4people, Inc. specializes in clients under the age of 14 in need of physical and/or educational assistance and military veterans with post-traumatic stress disorder.

All of the Organization's assistance canines receive their basic and advanced assistance dog training in the Organization's paws4prisons assistance dog training program. This program provides male and female federal inmates with an opportunity to train assistance canines, experience the human-animal bond, and to give back to society in a very important and meaningful way. The program also provides significant rehabilitative benefits, re-entry opportunities, and helps to decrease recidivism rates.

To date the Organization has conducted over 1,000,000 educational and therapeutic contacts during more than 53,600 visits.

The Organization is exempt from federal income tax under Section 501(a) of 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 2012.

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-profits. Accordingly, revenue is recorded when earned and expenses 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 of 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 are 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. There was no temporarily restricted activity in 2015.

paws4people, Inc.
Notes to Financial Statements
June 30, 2015

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. 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings, 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>2015</u>	<u>2014</u>
Operating - checking	\$ 59,453	\$ 56,369
Savings	30,426	55,261
Petty cash	<u>232</u>	<u>232</u>
Total	<u>\$ 90,111</u>	<u>\$ 111,862</u>

Property 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.

paws4people, Inc.
Notes to Financial Statements
June 30, 2015

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities 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 Directors), 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.

Investments

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

Subsequent Events

Management considered the inclusion of subsequent events in the disclosures of the footnotes through November 20, 2015, if such disclosures were required. That date was both the financial issuance date and the date the financials were available to be issued.

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 \$2,011,570 for 2015 and \$762,052 for 2014 met those criteria and are included in in-kind contributions in the statement of activities. The following paragraphs discuss the accounting for donated services related to canines.

The cost to breed, acquire, and train assistance and service canines are capitalized and depreciated over the service life of each canine – three years for assistance canines and eight years for service canines. 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 four months of the canine's life) range from \$1,414 to \$4,078 per canine depending on whether the canine was bred within the paws4people breeding program, purchased from an outside breeder, or adopted from a shelter.

For the next 20 months, the canines undergo standard and specialized training, which varies depending on whether the canine will become an assistance canine or a service canine.

Assistance canines are trained to provide general assistance and companionship in schools, nursing homes, and other community settings. They are typically placed in service at the end of a two-year training period and are retired after three years of service. The cost to train assistance canines ranges from \$2,016 to \$9,672 depending on the source of acquisition and the type of assistance the canine will provide when placed in service. Assistance canines receive up to 1,205 hours of training at hourly rates ranging from \$3.75 for prison inmates to \$75.00 for certified canine trainers.

Service canines are trained to provide highly specialized service to individuals with physical or psychological impairments. They are typically placed in service at the end of a two-year training program and are retired after eight years of service. The cost to train service canines ranges from \$29,277 to \$31,984 depending on the source of acquisition and the type of service the canine will provide when placed in service. Service canines receive up to 2,106 hours training at hourly training rates from \$3.75 for prison inmates to \$75.00 for certified canine trainers.

paws4people, Inc.
Notes to Financial Statements
June 30, 2015

As of June 30, 2015, the Organization had 550 canines in training, in its internal breeding program, or under post-placement management: 115 canines in the service program, 81 canines in the assistance program, 63 canines in the educational assistance program, 44 canines in the social-therapy program, 96 canines in the shelter-2-pet program, 96 canines in the training program, and 55 canines in the paws4prisons program.

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.

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.

paws4people, Inc.
Notes to Financial Statements
June 30, 2015

Fair values of assets classified by investment categories and measured on a recurring basis at June 30, 2015 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Precious metals	<u>\$ 9,984</u>	<u>\$ 9,984</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets at Fair Value	<u>\$ 9,984</u>	<u>\$ 9,984</u>	<u>\$ -</u>	<u>\$ -</u>

5. NOTES PAYABLE TO RELATED PARTIES

As of June 30, 2015, the Organization had notes payable totaling \$24,524, which were made by seven paws4people, Inc. board members and volunteers. The loans have no stated interest rate and no due date.

In January 2012, the Organization's Board of Directors 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. CONTINGENCIES

From time to time, the Organization may be aware of various asserted and unasserted claims. Management feels that these claims can be successfully defended and intends to resist the allegations of these matters in every way and does not plan to seek out-of-court settlements. In the event that judgments adverse to their interest were to be rendered, management feels any liability will be fully covered by existing insurance or not be material to the financial statements.

The Organization is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of liability, natural disasters, employee and officer errors and omissions, and employee workers' compensation and medical claims.

The Organization purchases commercial insurance coverage against risk of loss due to property damage and theft and various other insurable risks. The Organization carries general liability insurance in the amount of \$1,000,000 per occurrence and \$2,000,000 aggregate in 2015. The Organization carries workers' compensation insurance in the amount of \$100,000 per accident for 2015.

No claims have been filed with the insurance carrier in the past three fiscal years.