

**paws4people, Inc.**

Financial Statements

June 30, 2020

(With Comparative Totals as of June 30, 2019)

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Thomas, Judy & Tucker, P.A.  
Certified Public Accountants

## 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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Correction of Error**

As discussed in Note 10 to the financial statements, certain errors resulting in overstatement of amounts previously reported for in-kind canine training and care revenue and expense for the year ended June 30, 2019, were discovered by management of the Organization during the current year. Accordingly, amounts reported for in-kind canine training and care revenue and expense have been restated in the 2019 financial statements now presented to correct the error. Our opinion is not modified with respect to that matter.

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

January 20, 2021  
Durham, North Carolina

**paws4people, Inc.**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)

	2020			(As Restated) 2019 Total	
	Without Donor Restrictions		With Donor Restrictions		Total
	Operations	Canines			
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$ 539,434		\$ 539,434	\$ 495,184	
Federal Grant/Wounded Warrior Service Dog Program Receivable				230,315	
Sales Tax Receivable	6,777		6,777		
Other Receivables	2,500		2,500		
Tractor Supply/4health Gift Card Inventory			52,489	39,179	
Prepaid Expenses	19,649		19,649		
Investments	33,582		33,582	27,706	
<b>Total Current Assets</b>	<b>601,942</b>		<b>52,489</b>	<b>792,384</b>	
<b>Canine Assets:</b>					
<b>Canines in Active Service:</b>					
Service Dogs		7,533,394	7,533,394	7,343,397	
Facility Dogs		744,946	744,946	863,052	
Emotional Support Dogs		1,179,335	1,179,335	1,513,977	
Career Change Dogs				155,875	
Breeding Dogs		726,164	726,164	369,101	
Less: Accumulated Depreciation		(2,834,573)	(2,834,573)	(2,062,242)	
<b>Total Canines in Active Service, Net</b>		<b>7,349,266</b>	<b>7,349,266</b>	<b>8,183,160</b>	
Inactive Dogs		337,246	337,246		
Canines in Training Programs		2,651,998	2,651,998	2,244,740	
<b>Total Canine Assets, Net</b>		<b>10,338,510</b>	<b>10,338,510</b>	<b>10,427,900</b>	
<b>Property and Equipment:</b>					
Land	621,040		621,040	603,789	
Buildings and Improvements	1,095,805		1,095,805	981,839	
Furniture and Equipment	37,208		37,208	33,521	
Vehicles	171,055		171,055	94,784	
Less: Accumulated Depreciation	(153,454)		(153,454)	(101,839)	
<b>Property and Equipment, Net</b>	<b>1,771,654</b>		<b>1,771,654</b>	<b>1,612,094</b>	
<b>Total Assets</b>	<b>\$ 2,373,596</b>	<b>\$ 10,338,510</b>	<b>\$ 52,489</b>	<b>\$ 12,832,378</b>	

	2020			Total	(As Restated)
	Without Donor Restrictions Operations	Canines	With Donor Restrictions		2019 Total
<b>LIABILITIES AND NET ASSETS</b>					
Current Liabilities:					
Accounts Payable	\$ 69,624	\$	\$	\$ 69,624	\$ 40,824
Accrued Expenses	1,962			1,962	
Deferred Revenue	14,318			14,318	
Notes Payable, Current Portion	9,276			9,276	41,867
<b>Total Current Liabilities</b>	<b>95,180</b>			<b>95,180</b>	<b>82,691</b>
Notes Payable, Net of Current Portion	1,146,892			1,146,892	1,130,258
<b>Total Liabilities</b>	<b>1,242,072</b>			<b>1,242,072</b>	<b>1,212,949</b>
Net Assets:					
Without Donor Restriction:					
Undesignated	1,131,524	10,338,510		11,470,034	11,349,935
With Donor Restriction:					
Purpose Restrictions			52,489	52,489	39,179
Time Restrictions					230,315
<b>Total Net Assets</b>	<b>1,131,524</b>	<b>10,338,510</b>	<b>52,489</b>	<b>11,522,523</b>	<b>11,619,429</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,373,596</b>	<b>\$ 10,338,510</b>	<b>\$ 52,489</b>	<b>\$ 12,764,595</b>	<b>\$ 12,832,378</b>

See Accompanying Notes

**paws4people, Inc.**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)

	2020				(As Restated)
	Without Donor Restrictions		With Donor	Total	2019
	Operations	Canines	Restrictions		Total
Support and Revenue:					
Public Support	\$ 791,291	\$	\$ 40,000	\$ 831,291	\$ 1,254,016
Federal Grant/Wounded Warrior Service Dog Program Revenue			429,670	429,670	460,631
In-Kind Training and Care Revenue, Net		2,288,503		2,288,503	2,765,589
In-Kind Goods and Services	305,189			305,189	268,416
Fundraising Revenue	107,830			107,830	142,846
Investment Returns	12,212			12,212	2,115
Interest Income	908			908	666
Miscellaneous Revenue	8,212			8,212	19,141
<b>Total Support and Revenue</b>	<b>1,225,642</b>	<b>2,288,503</b>	<b>469,670</b>	<b>3,983,815</b>	<b>4,913,420</b>
Net Assets Released from Restriction	<u>686,675</u>		<u>(686,675)</u>		
<b>Total Support, Revenue and Net Assets Released from Restriction</b>	<b>1,912,317</b>	<b>2,288,503</b>	<b>(217,005)</b>	<b>3,983,815</b>	<b>4,913,420</b>
Operating Expenses:					
Program	1,576,358	2,377,893		3,954,251	2,778,481
General and Administrative	85,482			85,482	72,844
Fundraising	40,988			40,988	105,062
<b>Total Operating Expenses</b>	<b>1,702,828</b>	<b>2,377,893</b>		<b>4,080,721</b>	<b>2,956,387</b>
<b>Change in Net Assets</b>	<b>209,489</b>	<b>(89,390)</b>	<b>(217,005)</b>	<b>(96,906)</b>	<b>1,957,033</b>
Net Assets, Beginning of Year	<u>922,035</u>	<u>10,427,900</u>	<u>269,494</u>	<u>11,619,429</u>	<u>9,662,396</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 1,131,524</u></b>	<b><u>\$ 10,338,510</u></b>	<b><u>\$ 52,489</u></b>	<b><u>\$ 11,522,523</u></b>	<b><u>\$ 11,619,429</u></b>

See Accompanying Notes

**paws4people, Inc.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)

	2020						(As Restated)
	Operations	Program Canines	Total	General and Administrative	Fundraising	Total	2019 Total
Salaries and Wages	\$ 462,074	\$	\$ 462,074	\$ 49,469	\$ 24,649	\$ 536,192	\$ 468,445
Payroll Taxes and Fees	37,840		37,840	4,051	2,018	43,909	45,932
Employee Benefits	18,509		18,509	1,981	987	21,477	24,205
Advertising	46,851		46,851		130	46,981	31,317
Contractors							41,805
Printing and Postage	4,345		4,345			4,345	3,134
Special Events							120,113
Office Expense	49,635		49,635	1,303	1,303	52,241	46,750
IT Expense	48,226		48,226	1,539	1,539	51,304	38,164
Canine Operations and Care	233,029		233,029			233,029	258,220
Travel and Transportation	76,467		76,467		3,185	79,652	152,488
Membership, Conferences and Certifications	9,755		9,755			9,755	10,536
Insurance	35,784		35,784	1,022	693	37,499	40,669
Professional Fees	55,903		55,903	18,100		74,003	43,780
Taxes, License, and Registration	34,419		34,419			34,419	10,975
Repairs and Maintenance	86,121		86,121	2,748	2,748	91,617	104,216
In-Kind, Goods and Services	254,785		254,785			254,785	268,416
Interest Expense	58,247		58,247	1,859	1,859	61,965	64,669
Miscellaneous Expense	5,542		5,542			5,542	25,538
Loss on Disposal of Property and Equipment				1,533		1,533	
In-Kind Canine Training and Care		4,971,152	4,971,152			4,971,152	2,822,080
Loss on Retirement of Dogs		1,155,973	1,155,973			1,155,973	202,953
Depreciation	58,826	1,221,920	1,280,746	1,877	1,877	1,284,500	954,062
<b>Total Expense by Function</b>	<b>1,576,358</b>	<b>7,349,045</b>	<b>8,925,403</b>	<b>85,482</b>	<b>40,988</b>	<b>9,051,873</b>	<b>5,778,467</b>
Less: Expenses Included with Revenue:							
In-Kind Training Expense		(4,971,152)	(4,971,152)			(4,971,152)	(2,822,080)
<b>Total Operating Expense</b>	<b>\$ 1,576,358</b>	<b>\$ 2,377,893</b>	<b>\$ 3,954,251</b>	<b>\$ 85,482</b>	<b>\$ 40,988</b>	<b>\$ 4,080,721</b>	<b>\$ 2,956,387</b>

See Accompanying Notes

**paws4people, Inc.**  
**STATEMENT OF CASH FLOWS**  
Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)

	2020	(As Restated) 2019
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (96,906)	\$ 1,957,033
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,284,500	954,062
Amortization of Debt Issuance Costs	1,837	1,837
In-Kind Canine Training and Care, Net	(2,288,503)	(2,765,589)
Loss on Retirement of Dogs	1,155,973	202,953
Loss on Disposal of Property and Equipment	1,533	
Stock Contribution	(50,404)	
Realized and Unrealized Gain on Investments	(11,967)	(1,969)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Pledge Receivable		25,000
Federal Grant/Wounded Warrior Service Dog Program Receivable	230,315	(130,315)
Sales Tax Receivable	(6,777)	
Other Receivable	(2,500)	
Tractor Supply/4health Gift Card Inventory	(13,310)	(21,265)
Prepaid Expenses	(19,649)	
Accounts Payable	28,800	37,907
Accrued Expenses	1,962	
Deferred Revenue	14,318	
Due to Employee		(2,953)
	229,222	256,701
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Proceeds from Sale of Investments	56,740	
Proceeds from Sale of Property and Equipment	1,500	
Purchase of Investments	(245)	(746)
Purchase of Property and Equipment	(200,374)	(137,208)
	(142,379)	(137,954)
Net Cash Used by Investing Activities		
Cash Flows from Financing Activities:		
Payments on Notes Payable	(42,593)	(34,535)
	(42,593)	(34,535)
Net Cash Used by Financing Activities		
Net Increase in Cash and Cash Equivalents	44,250	84,212
Cash and Cash Equivalents, Beginning of Year	495,184	410,972
Cash and Cash Equivalents, End of Year	\$ 539,434	\$ 495,184

See Accompanying Notes

**paws4people, Inc.**  
**STATEMENT OF CASH FLOWS**  
Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)  
(Continued)

	2020	(As Restated) 2019
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 60,128	64,359
Supplemental Schedule of Noncash Investing and Financing Activities:		
Purchase of Property and Equipment	\$ (225,173)	\$ (154,472)
Less: Amount Financed with Note Payable	24,799	17,264
Cash Paid for Purchase of Property and Equipment	\$ (200,374)	\$ (137,208)

See Accompanying Notes

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)

1. Summary of Significant Accounting Policies

Operations

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

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

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

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

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

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

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

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

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)

1. Summary of Significant Accounting Policies (Continued)

Operations (Continued)

Canines (Continued)

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

Financial Statement Presentation

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

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

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

Use of Estimates and Assumptions

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

Risks and Uncertainties

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

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash on hand, cash in demand deposit accounts, and all short-term debt securities with a maturity of three months or less to be cash equivalents. The Organization had \$461,941 and \$239,715 of cash equivalents at June 30, 2020 and 2019, respectively.

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 net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated securities are recorded at their fair market values on the dates of the gifts. The Organization determines whether and when to sell or to hold the donated securities.

Gift Card Inventory

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

Property and Equipment

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

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

Depreciation expense associated with property and equipment totaled \$62,580 and \$50,533 for the years ended June 30, 2020 and 2019, respectively.

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.

**paws4people, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)

1. Summary of Significant Accounting Policies (Continued)

Canine Assets (Continued)

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

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

The Organization spends 4 months to a year to train dogs placed as pets with Custodians. Beginning at contractual custody placement by the Organization with a Custodian, a canine is depreciated over the three year timeframe.

Depreciation expense associated with canine assets totaled \$1,221,920 and \$903,530 for the years ended June 30, 2020 and 2019, respectively.

The Organization incurred the following activity on canines in active service and canines in training programs during the years ended June 30:

	<u>Year Ended</u> <u>June 30, 2018</u>	<u>Additions, Net</u>	<u>Retirements</u> <u>and Reclasses</u>	<u>Year Ended</u> <u>June 30, 2019</u>
Canines in Active Service:				
Service Dogs	\$ 6,136,187	\$ 1,556,055	\$ (348,845)	\$ 7,343,397
Facility Dogs	440,312	422,740		863,052
Emotional Support Dogs	1,039,088	530,391	(55,502)	1,513,977
Career Change Dogs		155,875		155,875
Breeding Dogs		369,101		369,101
Accumulated Depreciation	<u>(1,360,106)</u>	<u>(903,530)</u>	<u>201,394</u>	<u>(2,062,242)</u>
Total Canines in Active Service	6,255,481	2,130,632	(202,953)	8,183,160
Canines in Training Programs	<u>2,513,313</u>	<u>2,881,654</u>	<u>(3,150,277)</u>	<u>2,244,740</u>
Total Canine Assets, Net	<u>\$ 8,768,794</u>	<u>\$ 5,052,265</u>	<u>\$ (3,353,180)</u>	<u>\$ 10,427,900</u>

**paws4people, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)

1. Summary of Significant Accounting Policies (Continued)

Canine Assets (Continued)

	Year Ended June 30, 2019	Additions	Retirements and Reclasses	Year Ended June 30, 2020
Canines in Active Service:				
Service Dogs	\$ 7,343,397	\$ 1,025,897	\$ (835,900)	\$ 7,533,394
Facility Dogs	863,052		(118,106)	744,946
Emotional Support Dogs	1,513,977	444,014	(778,656)	1,179,335
Career Change Dogs	155,875		(155,875)	
Breeding Dogs	369,101	166,230	190,833	726,164
Accumulated Depreciation	<u>(2,062,242)</u>	<u>(1,221,920)</u>	<u>449,589</u>	<u>(2,834,573)</u>
 Total Canines in Active Service	 8,183,160	 414,221	 (1,248,115)	 7,349,266
Inactive Dogs			337,246	337,246
Canines in Training Programs	<u>2,244,740</u>	<u>2,288,503</u>	<u>(1,881,245)</u>	<u>2,651,998</u>
 Total Canine Assets, Net	 <u>\$ 10,427,900</u>	 <u>\$ 2,702,724</u>	 <u>\$ (2,792,114)</u>	 <u>\$ 10,338,510</u>

Functional Allocations of Expenses

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

The expenses that are allocated include the following:

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

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)

1. Summary of Significant Accounting Policies (Continued)

Contributions

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

The Organization's Charitable Gift Solicitation, Acceptance, and Administration Policy is applicable to and governs all charitable gifts to the Organization and all of the Organization's gift agents. Contributions that are restricted by the donor are reported as increased in net assets without donor restriction if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending upon the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Advertising

The Organization expenses advertising costs when incurred. Advertising expense totaled \$46,981 and \$31,317 for the years ended June 30, 2020 and 2019, respectively.

Income Taxes

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

The Organization adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. Under this provision, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation had no impact on the Organization's financial statements. As of June 30, 2020, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress.

Concentrations of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. These are identified as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures up to \$250,000 for all accounts held at a single institution. As of June 30, 2020, the Organization maintained deposits of \$86,825 in excess of FDIC insured limits.

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020  
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1. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain amounts from the 2019 financial statements have been reclassified to conform with current year presentation. These reclassifications had no impact to the change in net assets or total net assets.

New Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information and also impacts the recognition, measurement, presentation and disclosure of financial instruments. The Organization adopted the new standard effective July 1, 2019, the first day of the Organization’s fiscal year, using the prospective adoption cumulative-effect approach. The adoption of the ASU has no impact on net assets as of July 1, 2019 as the guidance under the ASU did not impact the measurement of the Organization’s financial instruments.

In June 2018, the FASB issued ASU 2018-08, *Accounting Guidance for Contributions Received and Made*. The ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this standard has no impact on the Organization’s financial statements.

2. Availability and Liquidity

The following represents the Organization’s financial assets at June 30, 2020:

Cash and Cash Equivalents	\$ 539,434
Sales Tax Receivable	6,777
Other Receivables	2,500
Tractor Supply/4health Gift Card Inventory	52,489
Investments	<u>33,582</u>
 Total Financial Assets	 634,782
 Less Amounts not Available to Meet General Expenditures over the Next Twelve Months:	
Net Assets with Donor Restrictions	<u>(52,489)</u>
 Financial Assets Available to Meet General Expenditures over the Next Twelve Months	 <u>\$ 582,293</u>

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

**paws4people, Inc.**  
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3. Investments

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

	2020		2019	
	Market Value	Cost	Market Value	Cost
Precious Metals	\$ 23,081	\$ 18,741	\$ 19,033	\$ 18,741
Common Stock	10,501	6,795	\$8,673	6,550
Total	\$ 33,582	\$ 25,536	\$ 27,706	\$ 25,291

The following schedule summarizes the investment returns on investment accounts for the years ended June 30:

	2020	2019
Interest and Dividends	\$ 245	\$ 146
Unrealized Gain on Investments	5,631	1,969
Realized Gain on Sale of Investments	6,336	
Investment Returns	\$ 12,212	\$ 2,115

4. Fair Value Measurements

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

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

**paws4people, Inc.**  
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5. Notes Payable

In May 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 2023. The note is secured by the real property and all improvements. The outstanding balance at June 30, 2020 and 2019 was \$1,124,909 and \$1,162,415, respectively.

Subsequent to year end, the Organization refinanced the note payable. The refinanced note payable bears interest at 3.74% and matures on July 17, 2031. Interest only payments are due through August 2021, at which time monthly principal and interest payments of \$10,957 are due. Additionally, under the terms of the refinance agreement the Organization has a construction line of credit with a maximum availability of \$711,006. The construction line of credit bears interest at 3.74% and matures on July 17, 2031.

In May 2019, the Organization entered into a financing agreement for the purchase of equipment with Kubota Corporation. The agreement requires monthly principal payments of \$360 and bears no interest. All unpaid principal is due upon maturity in May 2023. The outstanding balance at June 30, 2020 and 2019 was \$12,229 and \$16,904, respectively.

In May 2020, the Organization entered into a financing agreement for the purchase of equipment with a financial institution. The agreement requires monthly principal payments of \$413 and bears no interest. All unpaid principal is due upon maturity in May 2025. The outstanding balance at June 30, 2020 was \$24,386.

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

2021	\$	9,276
2022		44,902
2023		48,838
2024		46,774
2025		47,950
Thereafter		963,784
Unamortized Debt Issuance Costs		<u>(5,356)</u>
Total	\$	<u>1,156,168</u>

The carrying value of assets securing the note are \$1,771,654 at June 30, 2020.

**paws4people, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
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6. In-Kind Contributions

Goods and Services

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

Donated personal services are provided by a substantial number of volunteers, students in the 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 \$7,259,655 and \$5,587,669 for the years ended June 30, 2020 and 2019, respectively, met the criteria and are included in in-kind contributions in the statement of activities. The sources of the donated services for the years ended June 30 are as follows:

	2020	2019
UNC Wilmington/paws4people SDTP	\$ 2,338,044	\$ 889,237
paws4prisons®	4,921,611	4,698,432
Total	\$ 7,259,655	\$ 5,587,669

Canines

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

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

The Organization spends 4 months to a year to train dogs placed as pets with Custodians.

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

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020  
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6. In-Kind Contributions (Continued)

Canines (Continued)

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

Acquisition, whelping, and Puppy Development training costs (first 5 months of the canine's life) range from \$9,712 to \$13,841 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 Dogs 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 Service 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 Service Dog In-Training to control, regulate, and mitigate®, his/her disability symptom set.

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

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

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

Service Dogs and Facility Dogs receive at least 2,100 hours of training at hourly rates ranging from \$3.75 for paws4prison Program inmate trainers to \$75 for the Organization's certified staff trainers. The cost to train each Service Dog ranges from \$62,589 to \$64,361 depending on the Dog's certification. The cost to train each Facility Dog ranges from \$60,391 to \$62,589, depending on the Dog's certification.

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
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6. In-Kind Contributions (Continued)

Canines (Continued)

Emotional Support Dogs are trained to provide emotional support to Handlers within their own homes and other canine-friendly environments. Emotional Support Dogs receive between 240 and 1,200 hours of training at hourly rates ranging from \$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 each Emotional Support Dog ranges from \$25,151 to \$62,589.

The Organization also trains Breeding Dogs. Breeding Dogs receive 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 each Breeding Dog ranges from \$26,084 to \$64,022 per dog.

Due to the variation in the age at placement (puppy or adult) and the number of hours trained before placement, the cost associated with dogs placed as pets ranges from \$9,712 to \$25,151 per pet.

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

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

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

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

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

At June 30, 2020, the Organization had a total of 109 canines in training and 259 canines under post-placement management. Of the 259 canines under post-placement management: 179 are Assistance Dogs; 48 are Emotional Support Dogs; 15 are Facility Dogs; and 19 are Breeding Dogs.

At June 30, 2019 the Organization had a total of 78 canines in training and 213 canines under post-placement management. Of the 213 canines under post-placement management: 145 were Assistance Dogs; 40 were Emotional Support Dogs; 16 were Facility Dogs; 7 were Breeding Dogs; and 5 were Pets.

**paws4people, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
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7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30:

	2020	2019
Subject to Time Restrictions:		
Federal Grant Receivable, the Proceeds from Which have been Restricted by Donors for Wounded Warrior Service Dog Program	\$	\$ 230,315
Subject to Expenditure for Specified Purpose:		
Tractor Supply – Canine Food	52,489	39,179
Total	\$ 52,489	\$ 269,494

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the years ended June 30:

	2020	2019
Satisfaction of Purpose Restrictions:		
Federal Grant – Wounded Warrior Service Dog Program	\$ 659,985	\$ 330,316
Tractor Supply – Canine Food	26,690	821
	686,675	331,137
Satisfaction of Time Restrictions:		
Pledge Receivable		25,000
Total	\$ 686,675	\$ 356,137

8. Uncertainties

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

**paws4people, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
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9. Prior Year Information

The statements of financial position, activities, and functional expenses, include certain prior-year summarized comparative information in total but not by net asset class and functional category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

10. Prior Period Adjustment

In 2020, the Organization discovered an error related to the recognition of in-kind canine training and care revenue and expense made during the year ended June 30, 2019. Accordingly, an adjustment was made to decrease in-kind canine training and care revenue and expense and the 2019 financial statements have been restated as a result. This adjustment resulted in the following change to the Organization's financial statements:

	<u>As Previously Presented</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
In-Kind Canine Training and Care	\$ 2,997,719	\$ (175,639)	\$ 2,822,080

11. Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 20, 2021, which is the date the financial statements were available to be issued.

In July 2020, the Organization entered into a refinanced note payable agreement, which is detailed in Note 5.

Thomas, Judy & Tucker, P.A.  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of paws4people, Inc. as of and for the year ended June 30, 2020, and our report thereon dated January 20, 2021, 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.*

Durham, North Carolina  
January 20, 2021

**paws4people, Inc.**  
**SCHEDULE OF COST AND APPRAISED VALUE**  
 June 30, 2020

	Cost Basis	Appraised Value
Property and Equipment:		
Land	\$ 621,040	\$ 868,115
Buildings and Improvements	1,095,805	1,921,263
Furniture and Equipment	37,208	22,009
Vehicles	171,055	83,905
	\$ 1,925,108	\$ 2,895,292