

paws4people, Inc.

Financial Statements

December 31, 2020

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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 December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the six month period ended December 31, 2020, 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 December 31, 2020, and the changes in its net assets and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

Durham, North Carolina
August 9, 2021

paws4people, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2020

<u>ASSETS</u>	Without Donor Restrictions		With Donor	Total
	Operations	Canines	Restrictions	
Current Assets:				
Cash and Cash Equivalents	\$ 414,460	\$	\$ 383,745	\$ 798,205
Sales Tax Receivable	6,239			6,239
Tractor Supply/4health Gift Card				
Inventory			39,323	39,323
Prepaid Expenses	29,548			29,548
Investments	80,790			80,790
Total Current Assets	531,037		423,068	954,105
Canine Assets:				
Canines in Active Service:				
Service Dogs		8,397,521		8,397,521
Facility Dogs		1,089,226		1,089,226
Emotional Support Dogs		1,179,335		1,179,335
Breeding Dogs		774,539		774,539
Less: Accumulated Depreciation		(3,285,078)		(3,285,078)
Total Canines in Active Service, Net		8,155,543		8,155,543
Inactive Dogs		401,608		401,608
Canines in Training Programs		2,938,168		2,938,168
Total Canine Assets, Net		11,495,319		11,495,319
Property and Equipment:				
Land	638,145			638,145
Buildings and Improvements	1,106,097			1,106,097
Furniture and Equipment	40,116			40,116
Vehicles	179,002			179,002
Construction in Progress	352,566			352,566
Less: Accumulated Depreciation	(195,010)			(195,010)
Property and Equipment, Net	2,120,916			2,120,916
Total Assets	\$ 2,651,953	\$ 11,495,319	\$ 423,068	\$ 14,570,340

<u>LIABILITIES AND NET ASSETS</u>	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	<u>Total</u>
	<u>Operations</u>	<u>Canines</u>		
Current Liabilities:				
Accounts Payable	\$ 95,344	\$	\$	\$ 95,344
Accrued Expenses	9,025			9,025
Deferred Revenue			383,745	383,745
Notes Payable, Current Portion	35,533			35,533
Total Current Liabilities	139,902		383,745	523,647
Notes Payable, Net of Current Portion	1,324,085			1,324,085
Total Liabilities	1,463,987		383,745	1,847,732
Net Assets:				
Without Donor Restriction:				
Undesignated	1,187,966	11,495,319		12,683,285
With Donor Restriction:				
Purpose Restrictions			39,323	39,323
Total Net Assets	1,187,966	11,495,319	39,323	12,722,608
Total Liabilities and Net Assets	\$ 2,651,953	\$ 11,495,319	\$ 423,068	\$ 14,570,340

See Accompanying Notes

paws4people, Inc.
STATEMENT OF ACTIVITIES
For the Six Months Ended December 31, 2020

	<u>Without Donor Restrictions</u>		<u>With Donor</u>	<u>Total</u>
	<u>Operations</u>	<u>Canines</u>	<u>Restrictions</u>	
Support and Revenue:				
Public Support	\$ 320,007	\$	\$	\$ 320,007
Federal Grant/Wounded Warrior Service Dog Program Revenue			327,751	327,751
In-Kind Training and Care Revenue, Net		2,098,981		2,098,981
In-Kind Goods and Services	82,168			82,168
Fundraising Revenue	46,022			46,022
Investment Returns	6,382			6,382
Interest Income	576			576
Miscellaneous Revenue	6,059			6,059
 Total Support and Revenue	 461,214	 2,098,981	 327,751	 2,887,946
 Net Assets Released from Restriction	 340,917		 (340,917)	
 Total Support, Revenue and Net Assets Released from Restriction	 802,131	 2,098,981	 (13,166)	 2,887,946
 Operating Expenses:				
Program	650,567	942,172		1,592,739
General and Administrative	65,352			65,352
Fundraising	29,770			29,770
 Total Operating Expenses	 745,689	 942,172		 1,687,861
 Change in Net Assets	 56,442	 1,156,809	 (13,166)	 1,200,085
 Net Assets, Beginning of Period	 1,131,524	 10,338,510	 52,489	 11,522,523
 Net Assets, End of Period	 <u>\$ 1,187,966</u>	 <u>\$ 11,495,319</u>	 <u>\$ 39,323</u>	 <u>\$ 12,722,608</u>

See Accompanying Notes

paws4people, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
For the Six Months Ended December 31, 2020

	Operations	Program Canines	Total	General and Administrative	Fundraising	Total
Salaries and Wages	\$ 222,402	\$	\$ 222,402	\$ 36,678	\$ 21,502	\$ 280,582
Payroll Taxes and Fees	17,512		17,512	2,888	1,693	22,093
Employee Benefits	12,257		12,257	2,021	1,185	15,463
Advertising	5,216		5,216		80	5,296
Printing and Postage	2,211		2,211			2,211
Office Expense	25,465		25,465	753	753	26,971
IT Expense	25,223		25,223	805	805	26,833
Canine Operations and Care	103,278		103,278			103,278
Travel and Transportation	26,917		26,917			26,917
Membership, Conferences and Certifications	8,660		8,660			8,660
Insurance	27,244		27,244	1,234	879	29,357
Professional Fees	30,812		30,812	18,100		48,912
Taxes, License, and Registration	8,107		8,107			8,107
Repairs and Maintenance	32,564		32,564	1,040	1,040	34,644
In-Kind, Goods and Services	41,341		41,341			41,341
Interest	18,371		18,371	586	586	19,543
Miscellaneous	3,922		3,922			3,922
In-Kind Canine Training and Care		1,587,765	1,587,765			1,587,765
Loss on Retirement of Dogs		286,831	286,831			286,831
Depreciation	39,065	655,341	694,406	1,247	1,247	696,900
Total Expense by Function	650,567	2,529,937	3,180,504	65,352	29,770	3,275,626
Less: Expenses Included with Revenue:						
In-Kind Training Expense		(1,587,765)	(1,587,765)			(1,587,765)
Total Operating Expense	\$ 650,567	\$ 942,172	\$ 1,592,739	\$ 65,352	\$ 29,770	\$ 1,687,861

See Accompanying Notes

paws4people, Inc.
STATEMENT OF CASH FLOWS
For the Six Months Ended December 31, 2020

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 1,200,085
Adjustments to Reconcile Change in Net	
Assets to Net Cash Provided by Operating Activities:	
Depreciation	696,900
Amortization of Debt Issuance Costs	557
In-Kind Canine Training and Care, Net	(2,098,981)
Loss on Retirement of Dogs	286,831
Stock Contribution	(40,827)
Unrealized Gain on Investments	(6,290)
Changes in Assets and Liabilities that	
Provided (Used) Cash:	
Sales Tax Receivable	538
Other Receivable	2,500
Tractor Supply/4health Gift Card Inventory	13,166
Prepaid Expenses	(9,899)
Accounts Payable	25,720
Accrued Expenses	7,063
Deferred Revenue	369,427
	<u>446,790</u>
Net Cash Provided by Operating Activities	
Cash Flows from Investing Activities:	
Purchase of Investments	(91)
Purchase of Property and Equipment	(183,174)
	<u>(183,265)</u>
Net Cash Used by Investing Activities	
Cash Flows from Financing Activities:	
Payments on Notes Payable	(4,754)
	<u>(4,754)</u>
Net Cash Provided by Financing Activities	
Net Increase in Cash and Cash Equivalents	258,771
Cash and Cash Equivalents, Beginning of Period	539,434
Cash and Cash Equivalents, End of Period	<u><u>\$ 798,205</u></u>

See Accompanying Notes

paws4people, Inc.
STATEMENT OF CASH FLOWS
For the Six Months Ended December 31, 2020
(Continued)

Supplemental Disclosure of Cash Flow Information:

Cash Paid During the Year for Interest	\$ 18,987
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Supplemental Schedule of Noncash Investing and Financing Activities:

Purchase of Property and Equipment	\$ (390,821)
Less: Amount Financed with Note Payable	<u>207,647</u>

Cash Paid for Purchase of Property and Equipment	<u>\$ (183,174)</u>
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Payments of Closing Costs	\$ 5,253
Less: Amount Financed with Note Payable	<u>(5,253)</u>

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

1. Summary of Significant Accounting Policies

Operations

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

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

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

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

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

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

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

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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.

The Organization changed its fiscal year end from June 30 to December 31 effective December 31, 2020.

Financial Statement Presentation

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

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

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

Use of Estimates and Assumptions

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

Risks and Uncertainties

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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 \$675,333 of cash equivalents at December 31, 2020.

Investments

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

Gift Card Inventory

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

Property and Equipment

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

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

Depreciation expense associated with property and equipment totaled \$41,559 for the six month period ended December 31, 2020.

Canine Assets

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

1. Summary of Significant Accounting Policies (Continued)

Canine Assets (Continued)

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

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

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

Depreciation expense associated with canine assets totaled \$655,341 for the six month period ended December 31, 2020.

The Organization incurred the following activity on canines in active service and canines in training programs during the six month period ended December 31, 2020:

	<u>Year Ended</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Retirements</u> <u>and Reclasses</u>	<u>Period Ended</u> <u>December 31, 2020</u>
Canines in Active Service:				
Service Dogs	\$ 7,533,394	\$ 1,204,202	\$ (340,075)	\$ 8,397,521
Facility Dogs	744,946	344,280		1,089,226
Emotional Support Dogs	1,179,335			1,179,335
Breeding Dogs	726,164	159,379	(111,004)	774,539
Accumulated Depreciation	<u>(2,834,573)</u>	<u>(655,341)</u>	<u>204,836</u>	<u>(3,285,078)</u>
 Total Canines in Active Service	 7,349,266	 1,052,520	 (246,243)	 8,155,543
 Inactive Dogs	 337,246		 64,362	 401,608
Canines in Training Programs	<u>2,651,998</u>	<u>2,098,981</u>	<u>(1,812,811)</u>	<u>2,938,168</u>
 Total Canine Assets, Net	 <u>\$ 10,338,510</u>	 <u>\$ 3,151,501</u>	 <u>\$ (1,994,692)</u>	 <u>\$ 11,495,319</u>

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

1. Summary of Significant Accounting Policies (Continued)

Functional Allocations of Expenses

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

The expenses that are allocated include the following:

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

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 \$5,296 for the six month period ended December 31, 2020.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

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

The Organization adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. Under this provision, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation had no impact on the Organization's financial statements. As of December 31, 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 December 31, 2020, the Organization maintained deposits of \$397,955 in excess of FDIC insured limits.

2. Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2020:

Cash and Cash Equivalents	\$ 798,205
Other Receivables	6,239
Tractor Supply/4health Gift Card Inventory	39,323
Investments	<u>80,790</u>
Total Financial Assets	924,557
Less Amounts not Available to Meet General Expenditures over the Next Twelve Months:	
Net Assets with Donor Restrictions	<u>(423,068)</u>
Financial Assets Available to Meet General Expenditures over the Next Twelve Months	<u>\$ 501,489</u>

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

3. Investments

The Organization's investments consist of stocks and precious metals recorded at market value as of December 31, 2020:

	<u>Market Value</u>	<u>Cost</u>
Precious Metals	\$ 29,118	\$ 18,741
Common Stock	<u>51,672</u>	<u>47,605</u>
Total	<u>\$ 80,790</u>	<u>\$ 66,346</u>

The following schedule summarizes the investment returns on investment accounts for the six month period ended December 31, 2020:

Interest and Dividends	\$ 92
Unrealized Gain on Investments	<u>6,290</u>
Investment Returns	<u>\$ 6,382</u>

4. Fair Value Measurements

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

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

Level 1 Fair Value Measurements

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

5. Notes Payable

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

In July 2020, the Organization refinanced the note payable. The refinanced note payable bears interest at 3.74% and matures on July 17, 2031. Interest only payments are due through August 2021, at which time monthly principal and interest payments of \$10,957 are due. Additionally, under the terms of the refinance agreement, the Organization may draw on additional funds with a maximum borrowing of \$1,841,169 and matures July 17, 2031. The outstanding balance at December 31, 2020 was \$1,337,693.

In May 2019, the Organization entered into a financing agreement for the purchase of equipment with Kubota Corporation. The agreement requires monthly principal payments of \$360 and bears no interest. All unpaid principal is due upon maturity in May 2023. The outstanding balance at December 31, 2020 was \$10,071.

In May 2020, the Organization entered into a financing agreement for the purchase of equipment with a financial institution. The agreement requires monthly principal payments of \$413 and bears no interest. All unpaid principal is due upon maturity in May 2025. The outstanding balance at December 31, 2020 was \$21,906.

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

2021	\$	35,533
2022		73,984
2023		73,569
2024		74,686
2025		74,445
Thereafter		1,037,453
Unamortized Debt Issuance Costs		<u>(10,052)</u>
Total	\$	<u>1,359,618</u>

The carrying value of assets securing the note are \$2,120,916 at December 31, 2020.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
 December 31, 2020

6. In-Kind Contributions

Goods and Services

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

Donated personal services are provided by a substantial number of volunteers, students in the University of North Carolina ("UNC") Wilmington/paws4people Service Dog Training Program (SDTP), and inmate trainers in the paws4prisons® in the course of and support of the Organization's operations and programs. The majority of those contributed services meet the criteria for recognition in the financial statements. Accounting principles generally accepted in the United States ("U.S. GAAP") allows recognition of contributed services if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Management has determined that donated services with an estimated fair value of \$3,686,746 for the six month period ended December 31, 2020, met the criteria and are included in in-kind contributions in the statement of activities. The sources of the donated services for the six month period ended December 31, 2020 are as follows:

UNC Wilmington/paws4people SDTP	\$	1,225,940
paws4prisons®		<u>2,460,806</u>
Total		<u>\$ 3,686,746</u>

Canines

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

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

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

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

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

6. In-Kind Contributions (Continued)

Canines (Continued)

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

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

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

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

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

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

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

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

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

6. In-Kind Contributions (Continued)

Canines (Continued)

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

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

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

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

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

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

At December 31, 2020, the Organization had a total of 84 canines in training and 258 canines under post-placement management. Of the 258 canines under post-placement management: 167 are Assistance Dogs; 48 are Emotional Support Dogs; 18 are Facility Dogs; and 25 are Breeding Dogs.

paws4people, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of December 31, 2020:

Subject to Expenditure for Specified Purpose:	
Tractor Supply – Canine Food	\$ <u>39,323</u>
Total	\$ <u>39,323</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the six month period ended December 31, 2020:

Satisfaction of Purpose Restrictions:	
Federal Grant – Wounded Warrior Service Dog Program	\$ 327,751
Tractor Supply – Canine Food	<u>13,166</u>
Total	\$ <u>340,917</u>

8. Uncertainties

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

9. Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through August 9, 2021, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization was awarded a Wounded Warrior Service Dog Program Grant VII in the amount of \$674,056, for the period July 1, 2021 to June 30, 2022.

**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 six month period ended December 31, 2020, and our report thereon dated August 9, 2021, which expressed an unmodified opinion on those financial statements, appears on pages 1-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on Schedule 1, 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.

Durham, North Carolina
August 9, 2021

paws4people, Inc.
SCHEDULE OF COST AND APPRAISED VALUE
December 31, 2020

	Cost Basis	Appraised Value
Property and Equipment:		
Land	\$ 638,145	\$ 868,115
Buildings and Improvements	1,106,097	1,921,263
Furniture and Equipment	40,116	24,303
Vehicles	179,002	105,158
	<u>\$ 1,963,360</u>	<u>\$ 2,918,839</u>