

**PATRIOT PAWS SERVICE DOGS**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**



CliftonLarsonAllen

CliftonLarsonAllen LLP  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Patriot PAWS Service Dogs  
Rockwall, Texas

We have audited the accompanying financial statements of Patriot Paws Service Dogs, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, cash flows, and functional expenses for the years 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 audits. We conducted our audits 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.

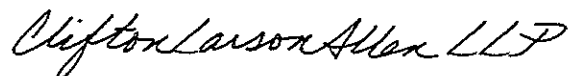
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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.

Board of Directors  
Patriot PAWS Service Dogs

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Patriot Paws Service Dogs as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**CliftonLarsonAllen LLP**

Dallas, Texas  
June 23, 2015

**PATRIOT PAWS SERVICE DOGS  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013**

<b>ASSETS</b>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 892,488	\$ 758,591
Grant Receivable	-	15,000
Pledges Receivable, Current	-	19,250
Prepaid Expenses	9,968	4,989
Total Current Assets	<u>902,456</u>	<u>797,830</u>
<b>OTHER ASSETS</b>		
Property and Equipment	742,467	77,823
Deferred Financing Costs, Net	11,281	-
Security Deposits and Other	9,098	4,070
Total Other Assets	<u>762,846</u>	<u>81,893</u>
Total Assets	<u>\$ 1,665,302</u>	<u>\$ 879,723</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 12,829	\$ 15,828
Accrued Expenses	17,935	15,473
Current Portion Long-Term Debt	40,525	-
Total Current Liabilities	<u>71,289</u>	<u>31,301</u>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	<u>434,137</u>	-
Total Long-Term Liabilities	<u>434,137</u>	-
Total Liabilities	505,426	31,301
<b>NET ASSETS</b>		
Unrestricted Net Assets	1,159,876	647,668
Temporarily Restricted Net Assets	-	200,754
Total Net Assets	<u>1,159,876</u>	<u>848,422</u>
Total Liabilities and Net Assets	<u>\$ 1,665,302</u>	<u>\$ 879,723</u>

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUES</b>						
Contributions:						
Cash	\$ 1,235,376	\$ -	\$ 1,235,376	\$ 908,657	\$ 180,000	\$ 1,088,657
In-Kind	132,067	-	132,067	59,383	-	59,383
Subtotal Contributions	1,367,443	-	1,367,443	968,040	180,000	1,148,040
Rental Income	16,800	-	16,800	-	-	-
Miscellaneous Interest and Fees	1,344	-	1,344	624	-	624
Other Income	19,424	-	19,424	6,162	-	6,162
Net Assets Released from Restrictions	200,754	(200,754)	-	68,235	(68,235)	-
Total Support and Revenues	1,605,765	(200,754)	1,405,011	1,043,061	111,765	1,154,826
<b>EXPENSES</b>						
Salaries	475,509	-	475,509	362,958	-	362,958
Professional Fees	83,858	-	83,858	16,565	-	16,565
Rent, Utilities, Tax and Maintenance	63,132	-	63,132	57,779	-	57,779
Office Expense	104,007	-	104,007	39,980	-	39,980
Depreciation and Amortization	61,478	-	61,478	44,368	-	44,368
Travel	79,071	-	79,071	79,630	-	79,630
Advertising	45,307	-	45,307	39,117	-	39,117
General Supplies	15,898	-	15,898	16,570	-	16,570
Veterinary Care	72,243	-	72,243	41,023	-	41,023
Animal Related Expenses	74,635	-	74,635	64,999	-	64,999
Book and Reference Materials	3,556	-	3,556	6,393	-	6,393
Interest	14,863	-	14,863	-	-	-
Total Expenses	1,093,557	-	1,093,557	769,382	-	769,382
<b>INCREASE (DECREASE) IN NET ASSETS</b>	512,208	(200,754)	311,454	273,679	111,765	385,444
Net Assets - Beginning of Year	647,668	200,754	848,422	373,989	88,989	462,978
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 1,159,876</b>	<b>\$ -</b>	<b>\$ 1,159,876</b>	<b>\$ 647,668</b>	<b>\$ 200,754</b>	<b>\$ 848,422</b>

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 311,454	\$ 385,444
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	61,478	44,368
Donated Equipment	(31,548)	-
Changes in Operating Assets and Liabilities:		
Prepaid Expenses	(4,979)	(2,246)
Grant Receivable	15,000	(15,000)
Pledges Receivable	19,250	20,450
Other Assets	(5,028)	359
Accounts Payable	(2,999)	5,818
Accrued Expenses	2,462	5,315
Net Cash Provided by Operating Activities	365,090	444,508
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(693,875)	(52,077)
Net Cash Used by Investing Activities	(693,875)	(52,077)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Long-Term Debt	497,000	-
Principal Payments on Long-Term Debt	(22,338)	-
Payment of Financing Costs	(11,980)	-
Net Cash Provided by Financing Activities	462,682	-
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	133,897	392,431
Cash and Cash Equivalents - Beginning of Year	758,591	366,160
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 892,488	\$ 758,591
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest Paid	\$ 14,863	\$ -
<b>NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Donated Equipment	\$ 31,548	\$ -
In-Kind Donations	\$ 132,067	\$ 59,383

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 334,413	\$ 68,169	\$ 72,927	\$ 475,509
Professional Fees	29,469	54,389	-	83,858
Rent, Utilities, Tax and Maintenance	50,846	12,286	-	63,132
Office Expense	84,460	18,489	1,058	104,007
Depreciation and Amortization	24,019	37,459	-	61,478
Travel	75,706	2,914	451	79,071
Advertising	15,879	-	29,428	45,307
General Supplies	14,825	1,073	-	15,898
Veterinary Care	72,243	-	-	72,243
Animal Related Expenses	74,635	-	-	74,635
Book and Reference Materials	3,556	-	-	3,556
Interest	13,377	1,486	-	14,863
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Expense	<u>\$ 793,428</u>	<u>\$ 196,265</u>	<u>\$ 103,864</u>	<u>\$ 1,093,557</u>

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2013**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 231,902	\$ 79,930	\$ 51,126	\$ 362,958
Professional Fees	78	16,487	-	16,565
Rent, Utilities, and Maintenance	43,334	14,445	-	57,779
Office Expense	30,978	9,002	-	39,980
Depreciation and Amortization	18,483	25,885	-	44,368
Travel	78,554	1,076	-	79,630
Advertising	17,039	-	22,078	39,117
General Supplies	13,115	3,455	-	16,570
Veterinary Care	41,023	-	-	41,023
Animal Related Expenses	64,999	-	-	64,999
Book and Reference Materials	6,393	-	-	6,393
	<u>6,393</u>	<u>-</u>	<u>-</u>	<u>6,393</u>
<b>Total Expense</b>	<b><u><u>\$ 545,898</u></u></b>	<b><u><u>\$ 150,280</u></u></b>	<b><u><u>\$ 73,204</u></u></b>	<b><u><u>\$ 769,382</u></u></b>

*See accompanying Notes to Financial Statements.*



**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Patriot Paws Service Dogs (the Organization) was incorporated in 2005 to be operated as a charitable organization. The Organization's mission is to train service dogs that will enhance the lives of disabled veterans and other Americans with mobile disabilities.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

**Net Asset Classification**

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Resources subject to donor imposed restrictions that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets.

**Contributions**

Contributions, unconditional promises to give, and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Donor-restricted contributions are reported as increases in temporary or permanently restricted net assets, depending on the nature of the restrictions. When these restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

**Cash and Cash Equivalents**

For the purposes of the statements of cash flows, the Organization considers all cash and other highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

At times, cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Grant Receivable**

Grant receivables are stated at their fair value. The Organization considers the amount to be fully collectible as the full grant amount was received subsequent to year-end.

**Pledges Receivable**

The Organization's pledges receivable are reported net of the allowance for uncollectible pledges and unamortized discount. Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. Discounts on those amounts are computed using an imputed interest rate of 3%. At December 31, 2014 and 2013, current portion of pledges receivable amounted to \$-0- and \$19,250, respectively. All pledges receivable are due within one year.

**Property and Equipment**

Property and equipment purchases are recorded at cost. Contributed items are recorded at fair market value at date of donation. If the donor stipulates how long the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted. Depreciation is recorded through the use of the straight-line method over the estimated useful life of the asset. Items costing or valued over \$500 are capitalized.

**Deferred Financing Costs**

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method, a method which approximates the effective interest rate method. At December 31, 2014 and 2013, deferred financing costs were \$11,980 and \$-0-, respectively. At December 31, 2014 and 2013, accumulated amortization of deferred financing costs was \$699 and \$-0-, respectively. Amortization expense related to the deferred financing costs was \$699 and \$-0-, respectively.

**Donated Services, Materials and Rent**

Contributions of noncash assets (materials and rent) are recorded at their fair values in the period received. Contributions of services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Donated Services, Materials and Rent (Continued)**

The Organization has received the following in-kind donations for the years ended December 31:

	<u>Valuation Method</u>	2014
Veterinary Services	Rates Charged for Similar Services	\$ 25,832
Dogs, Dog Equipment, Food, Medication	Fair Market Value	41,850
Equipment and Software	Fair Market Value	17,351
Miscellaneous	Fair Market Value	10,229
Gift Cards	Gift Card Value	1,064
Meals	Cost of Meal Provided	3,850
Rent, Storage	Current Market Rental Rates	553
Legal Services	Rates Charged for Similar Services	4,325
Printing	Fair Market Value	7,925
Vehicle	Fair Market Value	19,088
Total In-Kind Contributions		<u>\$ 132,067</u>

	<u>Valuation Method</u>	2013
Veterinary Services	Rates Charged for Similar Services	\$ 14,230
Dogs, Dog Equipment, Food, Medication	Fair Market Value	37,014
Equipment and Clothing	Fair Market Value	5,454
Artwork	Appraised Value	575
Gift Cards	Gift Card Value	150
Meals	Cost of Meal Provided	1,730
Rent, Storage	Current Market Rental Rates	80
Discounts Given	Discount Value Given	150
Total In-Kind Contributions		<u>\$ 59,383</u>

All of the donated materials are program in nature and reflected in the functional expenses as such. A large number of volunteers support the Organization's operations. These services are not reflected in the financial statements because they do not meet the requirement for recording of services in accordance with accounting principles generally accepted in the United States of America as they neither 1) enhance the value of a nonfinancial asset nor 2) are provided by a professional within their profession.

**Functional Allocation of Expense**

Salaries and related expenses are allocated based on timesheets maintained by management. Expenses, other than salaries and related expenses, which are not directly identifiable by function, are allocated based on the best estimates of management.

**Estimates and Assumptions**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates used.

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Advertising Costs**

Advertising costs are expensed as incurred. Total advertising expense for the years ended December 31, 2014 and 2013 were \$45,307 and \$39,117, respectively.

**Income Tax**

The Organization has tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The Organization has adopted guidance in the income tax standard regarding the recognition of uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. During 2014 and 2013, the Organization's evaluation did not identify any uncertain tax positions.

The Organization's tax returns for the years 2012 through 2014 are open to review and examination by federal and state authorities.

**Fair Value Measurements**

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Organization follows the accounting policy which measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. The Organization currently does not have any financial assets or financial liabilities that are measured at fair value on a recurring or non-recurring basis.

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 23, 2015, the date the financial statements were available to be issued.

**NOTE 2 PROPERTY AND EQUIPMENT**

A summary of property and equipment as of December 31, 2014 and 2013 is as follows:

	2014	2013
Building	\$ 610,000	\$ -
Furniture and Equipment	68,296	41,708
Vehicles	187,940	99,699
Leasehold Improvements	53,319	52,724
Less: Accumulated Depreciation	(177,088)	(116,308)
Total	<u>\$ 742,467</u>	<u>\$ 77,823</u>

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 3 LONG-TERM DEBT**

In May 2014, the Organization financed the purchase of a building property adjacent to its current location for future expansion. The term of the \$497,000 mortgage is 10 years and requires monthly principal and interest payments of \$5,315 with a fixed interest rate of 5.10%.

The following schedule outlines future principle amounts due on the note:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 40,525
2016	42,640
2017	44,867
2018	47,209
2019	49,674
Thereafter	249,747
Total Long-Term Debt	<u>\$ 474,662</u>

Total interest paid on the mortgage was \$14,863 for the year ended December 31, 2014.

**NOTE 4 TEMPORARILY RESTRICTED NET ASSETS**

The temporarily restricted net assets of the Organization consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Passenger Van	\$ -	\$ 754
Time Restricted	-	20,000
Veteran Program	-	15,000
Dog Training Program	-	140,000
Program Expenses	-	25,000
Total	<u>\$ -</u>	<u>\$ 200,754</u>

**NOTE 5 OPERATING LEASES**

The Organization leases office space and an apartment. The leases require monthly payments of \$2,950. For the years ended December 31, 2014 and 2013, total rent expense related to the lease was \$18,600 and \$35,400, respectively. Future obligations under this lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 6,600
2016	550
Total	<u>\$ 7,150</u>

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 5 OPERATING LEASES (CONTINUED)**

The Organization leases the adjacent property to tenants under a noncancelable operating lease with terms of 39 months and 25 days, terminating March 31, 2015. The following is a schedule of future minimum rentals under the lease at December 31, 2014:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	<u>\$ 7,200</u>
Total	<u><u>\$ 7,200</u></u>

**NOTE 6 RELATED PARTY TRANSACTIONS**

The Organization receives veterinary services from Country Friends Veterinary Clinic where a board member works. Amounts paid to the clinic were \$42,507 and \$21,848 for the years ended December 31, 2014 and 2013, respectively. Additionally, the Organization received \$10,270 in contributions from board members, and \$31 in contributions from employees for the year ended December 31, 2014.