

**PATRIOT PAWS SERVICE DOGS**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**PATRIOT PAWS SERVICE DOGS  
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YEARS ENDED DECEMBER 31, 2016 AND 2015**

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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, 2016 and 2015, 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 audits 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, 2016 and 2015, 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*

**CliftonLarsonAllen LLP**

Dallas, Texas  
July 11, 2017

**PATRIOT PAWS SERVICE DOGS  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015**

|  | 2016         | 2015         |
|--|--------------|--------------|
| <b>ASSETS</b>                            |              |              |
| <b>CURRENT ASSETS</b>                    |              |              |
| Cash and Cash Equivalents                | \$ 1,210,280 | \$ 1,166,041 |
| Investments                              | 25,404       | 1,554        |
| Pledges Receivable, Current              | 15,500       | 315,000      |
| Prepaid Expenses                         | 20,913       | 12,116       |
| Total Current Assets                     | 1,272,097    | 1,494,711    |
| <b>OTHER ASSETS</b>                      |              |              |
| Cash Restricted for Long-Term Purpose    | 546,468      | 1,407,575    |
| Property and Equipment, Net              | 2,548,449    | 1,259,030    |
| Pledges Receivable, Noncurrent           | 13,580       | 26,500       |
| Security Deposits and Other              | 2,338        | 10,154       |
| Total Other Assets                       | 3,110,835    | 2,703,259    |
| Total Assets                             | \$ 4,382,932 | \$ 4,197,970 |
| <b>LIABILITIES AND NET ASSETS</b>        |              |              |
| <b>CURRENT LIABILITIES</b>               |              |              |
| Accounts Payable                         | \$ 98,019    | \$ 16,539    |
| Accrued Expenses                         | 154,928      | 15,258       |
| Current Portion Long-Term Debt           | 73,541       | 69,891       |
| Total Current Liabilities                | 326,488      | 101,688      |
| <b>LONG-TERM LIABILITIES</b>             |              |              |
| Long-Term Debt, Net of Current Portion   | 627,142      | 699,342      |
| Debt Issuance Costs, Unamortized Portion | (12,866)     | (14,519)     |
| Total Long-Term Liabilities              | 614,276      | 684,823      |
| Total Liabilities                        | 940,764      | 786,511      |
| <b>NET ASSETS</b>                        |              |              |
| Unrestricted Net Assets                  | 2,867,244    | 1,662,509    |
| Temporarily Restricted Net Assets        | 574,924      | 1,748,950    |
| Total Net Assets                         | 3,442,168    | 3,411,459    |
| Total Liabilities and Net Assets         | \$ 4,382,932 | \$ 4,197,970 |

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

|  | 2016                |                           |                     | 2015                |                           |                     |
|--|---------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
|  | Unrestricted        | Temporarily<br>Restricted | Total               | Unrestricted        | Temporarily<br>Restricted | Total               |
| <b>SUPPORT AND REVENUES</b>              |                     |                           |                     |                     |                           |                     |
| Contributions:                           |                     |                           |                     |                     |                           |                     |
| Cash                                     | \$ 1,395,314        | \$ 12,580                 | \$ 1,407,894        | \$ 1,806,853        | \$ 1,747,525              | \$ 3,554,378        |
| In-Kind                                  | 159,113             | -                         | 159,113             | 99,547              | -                         | 99,547              |
| Subtotal Contributions                   | <u>1,554,427</u>    | <u>12,580</u>             | <u>1,567,007</u>    | <u>1,906,400</u>    | <u>1,747,525</u>          | <u>3,653,925</u>    |
| Rental Income                            | -                   | -                         | -                   | 16,800              | -                         | 16,800              |
| Miscellaneous Interest and Fees          | 1,760               | 1,979                     | 3,739               | 2,006               | 1,425                     | 3,431               |
| Other Income                             | 25,269              | -                         | 25,269              | 36,815              | -                         | 36,815              |
| Net Assets Released from Restrictions    | <u>1,188,585</u>    | <u>(1,188,585)</u>        | <u>-</u>            | <u>-</u>            | <u>-</u>                  | <u>-</u>            |
| Total Support and Revenues               | <u>2,770,041</u>    | <u>(1,174,026)</u>        | <u>1,596,015</u>    | <u>1,962,021</u>    | <u>1,748,950</u>          | <u>3,710,971</u>    |
| <b>EXPENSES</b>                          |                     |                           |                     |                     |                           |                     |
| Salaries                                 | 900,866             | -                         | 900,866             | 724,263             | -                         | 724,263             |
| Professional Fees                        | 16,506              | -                         | 16,506              | 32,130              | -                         | 32,130              |
| Rent, Utilities, Tax, and Maintenance    | 79,195              | -                         | 79,195              | 93,760              | -                         | 93,760              |
| Office Expense                           | 109,882             | -                         | 109,882             | 116,821             | -                         | 116,821             |
| Depreciation and Amortization            | 76,229              | -                         | 76,229              | 78,542              | -                         | 78,542              |
| Travel                                   | 104,114             | -                         | 104,114             | 114,847             | -                         | 114,847             |
| Advertising                              | 35,460              | -                         | 35,460              | 63,687              | -                         | 63,687              |
| General Supplies                         | 16,725              | -                         | 16,725              | 26,137              | -                         | 26,137              |
| Veterinary Care                          | 62,843              | -                         | 62,843              | 63,847              | -                         | 63,847              |
| Animal Related Expenses                  | 116,110             | -                         | 116,110             | 99,410              | -                         | 99,410              |
| Book and Reference Materials             | 6,876               | -                         | 6,876               | 15,379              | -                         | 15,379              |
| Interest                                 | <u>40,500</u>       | <u>-</u>                  | <u>40,500</u>       | <u>30,565</u>       | <u>-</u>                  | <u>30,565</u>       |
| Total Expenses                           | <u>1,565,306</u>    | <u>-</u>                  | <u>1,565,306</u>    | <u>1,459,388</u>    | <u>-</u>                  | <u>1,459,388</u>    |
| <b>INCREASE (DECREASE) IN NET ASSETS</b> | 1,204,735           | (1,174,026)               | 30,709              | 502,633             | 1,748,950                 | 2,251,583           |
| Net Assets - Beginning of Year           | <u>1,662,509</u>    | <u>1,748,950</u>          | <u>3,411,459</u>    | <u>1,159,876</u>    | <u>-</u>                  | <u>1,159,876</u>    |
| <b>NET ASSETS - END OF YEAR</b>          | <u>\$ 2,867,244</u> | <u>\$ 574,924</u>         | <u>\$ 3,442,168</u> | <u>\$ 1,662,509</u> | <u>\$ 1,748,950</u>       | <u>\$ 3,411,459</u> |

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016**

|  | 2016         | 2015         |
|--|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |              |              |
| Increase in Net Assets   | \$ 30,709    | \$ 2,251,583 |
| Adjustments to Reconcile Increase in Net Assets<br>to Net Cash Provided by Operating Activities: |              |              |
| Depreciation   | 76,229       | 78,542       |
| Amortization of Discount on Promises to Give   | (2,580)      | -            |
| Donated Equipment  | (24,692)     | (574)        |
| Donated Stock  | (24,871)     | -            |
| Gain on Disposal of Property & Equipment   | (6,736)      | -            |
| Amortization of Debt Issuance Costs  | 1,653        | 1,312        |
| Changes in Operating Assets and Liabilities:   |              |              |
| Prepaid Expenses   | (8,797)      | (2,148)      |
| Pledges Receivable   | 315,000      | (341,500)    |
| Other Assets   | 7,816        | (1,056)      |
| Accounts Payable   | 81,480       | 3,710        |
| Accrued Expenses   | 139,670      | (2,677)      |
| Contributions Restricted for Long-Term Purpose   | (310,500)    | (1,406,025)  |
| Net Cash Provided by Operating Activities  | 274,381      | 581,167      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |              |              |
| Purchase of Property and Equipment   | (1,364,656)  | (594,531)    |
| Proceeds from Disposal of Property and Equipment   | 30,436       | -            |
| Proceeds from Sales of Investments   | 1,021        | -            |
| Proceeds from Contributions Restricted for Long-Term Purpose                                     | 310,500      | 1,406,025    |
| Net Cash (Used) Provided by Investing Activities   | (1,022,699)  | 811,494      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |              |              |
| Proceeds from Long-Term Debt   | -            | 340,000      |
| Principal Payments on Long-Term Debt   | (68,550)     | (45,429)     |
| Payment of Financing Costs   | -            | (4,550)      |
| Net Cash (Used) Provided by Financing Activities   | (68,550)     | 290,021      |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>  | (816,868)    | 1,682,682    |
| Cash and Cash Equivalents - Beginning of Year  | 2,573,616    | 890,934      |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>   | \$ 1,756,748 | \$ 2,573,616 |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>  |              |              |
| Interest Paid  | \$ 38,847    | \$ 29,253    |
| <b>NONCASH FINANCING AND INVESTING ACTIVITIES</b>  |              |              |
| Donated Equipment  | \$ 24,692    | \$ 574       |
| Donated Stock  | \$ 24,871    | \$ -         |
| In-Kind Donations  | \$ 159,113   | \$ 99,547    |

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016**

|                                       | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>        |
|---------------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries                              | \$ 770,427                  | \$ 39,618                         | \$ 90,821          | \$ 900,866          |
| Professional Fees                     | -                           | 16,506                            | -                  | 16,506              |
| Rent, Utilities, Tax, and Maintenance | 73,191                      | 6,004                             | -                  | 79,195              |
| Office Expense                        | 89,103                      | 20,779                            | -                  | 109,882             |
| Depreciation and Amortization         | 36,064                      | 40,165                            | -                  | 76,229              |
| Travel                                | 97,201                      | 6,913                             | -                  | 104,114             |
| Advertising                           | 3,474                       | -                                 | 31,986             | 35,460              |
| General Supplies                      | 15,243                      | 1,482                             | -                  | 16,725              |
| Veterinary Care                       | 62,843                      | -                                 | -                  | 62,843              |
| Animal Related Expenses               | 116,110                     | -                                 | -                  | 116,110             |
| Book and Reference Materials          | 6,876                       | -                                 | -                  | 6,876               |
| Interest                              | 34,962                      | 5,538                             | -                  | 40,500              |
|                                       | <u>\$ 1,305,494</u>         | <u>\$ 137,005</u>                 | <u>\$ 122,807</u>  | <u>\$ 1,565,306</u> |
| Total Expense                         | <u>\$ 1,305,494</u>         | <u>\$ 137,005</u>                 | <u>\$ 122,807</u>  | <u>\$ 1,565,306</u> |

See accompanying Notes to Financial Statements.



**PATRIOT PAWS SERVICE DOGS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015**

|                                  | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>        |
|----------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries                         | \$ 577,680                  | \$ 58,288                         | \$ 88,295          | \$ 724,263          |
| Professional Fees                | 6,110                       | 26,020                            | -                  | 32,130              |
| Rent, Utilities, and Maintenance | 78,571                      | 15,189                            | -                  | 93,760              |
| Office Expense                   | 99,404                      | 16,809                            | 608                | 116,821             |
| Depreciation and Amortization    | 26,773                      | 51,769                            | -                  | 78,542              |
| Travel                           | 110,438                     | 4,329                             | 80                 | 114,847             |
| Advertising                      | 31,941                      | -                                 | 31,746             | 63,687              |
| General Supplies                 | 24,158                      | 1,979                             | -                  | 26,137              |
| Veterinary Care                  | 63,847                      | -                                 | -                  | 63,847              |
| Animal Related Expenses          | 99,410                      | -                                 | -                  | 99,410              |
| Book and Reference Materials     | 15,379                      | -                                 | -                  | 15,379              |
| Interest                         | 26,328                      | 4,237                             | -                  | 30,565              |
|                                  | <u>\$ 1,160,039</u>         | <u>\$ 178,620</u>                 | <u>\$ 120,729</u>  | <u>\$ 1,459,388</u> |
| Total Expense                    | <u>\$ 1,160,039</u>         | <u>\$ 178,620</u>                 | <u>\$ 120,729</u>  | <u>\$ 1,459,388</u> |

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**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 December 31, 2016 and 2015, cash and cash equivalents were in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. Management is aware and believes the risk of loss to be remote.

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**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, 2016 and 2015, deferred financing costs were \$16,530. At December 31, 2016 and 2015, accumulated amortization of deferred financing costs was \$3,664 and \$2,011, respectively. Amortization expense related to the deferred financing costs was \$1,653 and \$1,312, 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.

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

|                                       | <u>Valuation Method</u>            | <u>2016</u>       |
|---------------------------------------|------------------------------------|-------------------|
| Veterinary Services                   | Rates Charged for Similar Services | \$ 19,558         |
| Dogs, Dog Equipment, Food, Medication | Fair Market Value                  | 81,894            |
| Equipment, Fencing, Flooring          | Fair Market Value                  | 17,230            |
| Stock                                 | Fair Market Value                  | 24,871            |
| Miscellaneous                         | Fair Market Value                  | 3,144             |
| Gift Cards                            | Gift Card Value                    | 460               |
| Meals                                 | Cost of Meal Provided              | 3,641             |
| Legal Services                        | Rates Charged for Similar Services | 253               |
| Printing                              | Fair Market Value                  | 362               |
| Vehicle                               | Fair Market Value                  | 7,700             |
| Total In-Kind Contributions           |                                    | <u>\$ 159,113</u> |

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

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

|                                       | <u>Valuation Method</u>            | <u>2015</u>      |
|---------------------------------------|------------------------------------|------------------|
| Veterinary Services                   | Rates Charged for Similar Services | \$ 20,037        |
| Dogs, Dog Equipment, Food, Medication | Fair Market Value                  | 66,807           |
| Equipment and Software                | Fair Market Value                  | 393              |
| Miscellaneous                         | Fair Market Value                  | 8,970            |
| Gift Cards                            | Gift Card Value                    | 200              |
| Meals                                 | Cost of Meal Provided              | 980              |
| Legal Services                        | Rates Charged for Similar Services | 814              |
| Painting                              | Fair Market Value                  | 1,346            |
| Total In-Kind Contributions           |                                    | <u>\$ 99,547</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.

**Advertising Costs**

Advertising costs are expensed as incurred. Total advertising expense for the years ended December 31, 2016 and 2015 were \$35,460 and \$63,687, 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 2016 and 2015, the Organization's evaluation did not identify any uncertain tax positions.

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 11, 2017, the date the financial statements were available to be issued.

**NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS**

The Organization has adopted the accounting guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by \$11,281 as of January 1, 2015. The adoption of the standard has no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU is retrospectively applied.

**NOTE 3 INVESTMENTS**

Investments consist of the following as of December 31:

|                    | 2016             | 2015            |
|--------------------|------------------|-----------------|
| Equity Securities  | \$ 19,813        | \$ 1,054        |
| Mutual Funds       | 5,057            | -               |
| Money Market Funds | 534              | 500             |
|                    | <u>\$ 25,404</u> | <u>\$ 1,554</u> |

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return on investments and interest-bearing cash equivalents consisted of \$3,739 and \$3,431 of interest as of the years ended December 31, 2016 and 2015, respectively.

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 4 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 objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (*Level 1*) and the lowest priority to unobservable inputs (*Level 3*). The Organization may use valuation techniques consistent with the market, income and cost approaches to measure fair value. The inputs used to measure fair value are categorized into the following three categories:

*Level 1* – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Organization has the ability to access as of the measurement date.

*Level 2* – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

*Level 3* – Inputs that are unobservable. Unobservable inputs reflect the Organization’s own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets measured at fair value as of December 31, 2016 are as follows:

|  | Level 1          | Level 2     | Level 3     | Total            |
|--|------------------|-------------|-------------|------------------|
| Investments:                             |                  |             |             |                  |
| Equity Securities                        | \$ 19,813        | \$ -        | \$ -        | \$ 19,813        |
| Mutual Funds                             | 5,057            | -           | -           | 5,057            |
| Total Investments Measured at Fair Value | <u>\$ 24,870</u> | <u>\$ -</u> | <u>\$ -</u> | <u>24,870</u>    |
| Money Market Funds Measured at Cost      |                  |             |             | 534              |
| Total Investments                        |                  |             |             | <u>\$ 25,404</u> |

**PATRIOT PAWS SERVICE DOGS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

Assets measured at fair value as of December 31, 2015 are as follows:

|  | <u>Level 1</u>  | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>    |
|--|-----------------|----------------|----------------|-----------------|
| Investments:                             |                 |                |                |                 |
| Equity Securities                        | \$ 1,054        | \$ -           | \$ -           | \$ 1,054        |
| Mutual Funds                             | -               | -              | -              | -               |
| Total Investments Measured at Fair Value | <u>\$ 1,054</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 1,054</u> |
| Money Market Funds Measured at Cost      |                 |                |                | 500             |
| Total Investments                        |                 |                |                | <u>\$ 1,554</u> |

**NOTE 5 PROPERTY AND EQUIPMENT**

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

|                                | <u>2016</u>         | <u>2015</u>         |
|--------------------------------|---------------------|---------------------|
| Land                           | \$ 183,720          | \$ 183,720          |
| Building                       | 826,280             | 826,280             |
| Furniture and Equipment        | 73,269              | 75,705              |
| Vehicles                       | 150,915             | 222,709             |
| Leasehold Improvements         | 26,963              | 47,305              |
| Construction in Progress       | 1,421,728           | 99,008              |
| Less: Accumulated Depreciation | <u>(134,426)</u>    | <u>(195,697)</u>    |
| Total                          | <u>\$ 2,548,449</u> | <u>\$ 1,259,030</u> |

**NOTE 6 LONG-TERM DEBT**

In May 2014, the Organization financed the purchase of a building property adjacent to its current location for future expansion. In September 2015, the Organization financed the purchase of a building and property adjacent to its current location for future expansion. Long-term debt at December 31, 2016 consisted of the following:

|  | <u>Principal</u>  | <u>Unamortized<br/>Debt Issuance<br/>Costs</u> |
|--|-------------------|--|
| 5.1% mortgage loan, due May 2024, collateralized by property located at 254/272 Ranch Trail with a net book value of \$573,035   | \$ 393,177        | \$ 8,885                                       |
| 5.1% mortgage loan, due September 2025, collateralized by property located at 302 Ranch Trail with a net book value of \$389,920 | 307,506           | 3,981  |
|  | <u>\$ 700,683</u> | <u>\$ 12,866</u>                               |

**PATRIOT PAWS SERVICE DOGS  
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**NOTE 6 LONG-TERM DEBT (CONTINUED)**

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

| <u>Year Ending December 31,</u> | <u>Amount</u>            |
|---------------------------------|--------------------------|
| 2017                            | \$ 73,541                |
| 2018                            | 77,380                   |
| 2019                            | 81,420                   |
| 2020                            | 85,670                   |
| 2021                            | 90,143                   |
| Thereafter                      | 292,529                  |
| Total Long-Term Debt            | <u><u>\$ 700,683</u></u> |

Total interest paid including amortization of debt issuance costs on the mortgages was \$40,500 and \$30,565 for the years ended December 31, 2016 and 2015, respectively.

**NOTE 7 TEMPORARILY RESTRICTED NET ASSETS**

The temporarily restricted net assets of the Organization consist of the following at December 31:

|   | <u>2016</u>              | <u>2015</u>                |
|---|--------------------------|----------------------------|
| Capital Campaign                          | \$ 546,344               | \$ 1,407,450               |
| Capital Campaign - Time Restricted        | -                        | 300,000                    |
| General Mission Purpose - Time Restricted | 28,580                   | 41,500                     |
| Total                                     | <u><u>\$ 574,924</u></u> | <u><u>\$ 1,748,950</u></u> |

**NOTE 8 OPERATING LEASES**

The Organization leased office space and two apartments. The leases require monthly payments of \$3,150. For the years ended December 31, 2016 and 2015, total rent expense related to the lease was \$13,950 and \$20,400, respectively. There are no future obligations under this lease as each one was terminated during the year ended December 31, 2016.

**NOTE 9 RELATED PARTY TRANSACTIONS**

The Organization receives veterinary services from Country Friends Veterinary Clinic where a board member works. Amounts paid to the clinic were \$33,806 and \$35,200 for the years ended December 31, 2016 and 2015, respectively.

**NOTE 10 RECLASSIFICATIONS**

Certain items in the 2015 financial statements have been reclassified, with no effect on changes in net assets, to conform with the current year presentation.



**PATRIOT PAWS SERVICE DOGS  
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**NOTE 11 COMMITMENTS AND CONTINGENCIES**

As of December 31, 2016, the Organization was committed to a general contractor for the construction of additional facilities on the campus as follows:

|   | <u>Amount</u>            |
|---|--------------------------|
| Total Contract                              | \$ 2,030,827             |
| Less: Balance Paid on Contract              | (1,263,789)              |
| Less: Contract Payable                      | <u>(127,282)</u>         |
| Outstanding Commitment, Including Retainage | <u><u>\$ 639,756</u></u> |