

PATRIOT PAWS SERVICE DOGS
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2019 AND 2018

**PATRIOT PAWS SERVICE DOGS
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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, 2019 and 2018, 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, 2019 and 2018, 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

Fort Worth, Texas
October 5, 2020

**PATRIOT PAWS SERVICE DOGS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,812,741	\$ 1,439,811
Investments	2,117	501
Pledges Receivable, Current	69,057	55,839
Prepaid Expenses	45,013	38,865
Total Current Assets	1,928,928	1,535,016
OTHER ASSETS		
Cash Restricted for Long-Term Purpose	-	4,057
Property and Equipment, Net	3,307,890	3,333,759
Security Deposits and Other	3,568	2,628
Total Other Assets	3,311,458	3,340,444
Total Assets	\$ 5,240,386	\$ 4,875,460
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 12,467	\$ 18,278
Accrued Expenses	23,772	106,647
Current Portion Long-Term Debt	130,294	123,830
Total Current Liabilities	166,533	248,755
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	511,582	641,230
Debt Issuance Costs, Unamortized Portion	(7,907)	(9,560)
Total Long-Term Liabilities	503,675	631,670
Total Liabilities	670,208	880,425
NET ASSETS		
Without Donor Restrictions	4,546,490	3,881,557
With Donor Restrictions	23,688	113,478
Total Net Assets	4,570,178	3,995,035
Total Liabilities and Net Assets	\$ 5,240,386	\$ 4,875,460

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES						
Contributions:						
Cash	\$ 2,482,567	\$ 18,650	\$ 2,501,217	\$ 1,930,694	\$ 90,900	\$ 2,021,594
In-Kind	89,978	-	89,978	135,008	-	135,008
Subtotal Contributions	<u>2,572,545</u>	<u>18,650</u>	<u>2,591,195</u>	<u>2,065,702</u>	<u>90,900</u>	<u>2,156,602</u>
Miscellaneous Interest and Fees	3,941	1	3,942	(7,610)	23	(7,587)
Sponsorships	81,807	-	81,807	23,909	-	23,909
Settlement Income (see Note 8)	-	-	-	83,300	-	83,300
Net Assets Released from Restrictions	108,441	(108,441)	-	201,219	(201,219)	-
Total Support and Revenues	<u>2,766,734</u>	<u>(89,790)</u>	<u>2,676,944</u>	<u>2,366,520</u>	<u>(110,296)</u>	<u>2,256,224</u>
EXPENSES						
Salaries	1,145,571	-	1,145,571	1,079,279	-	1,079,279
Professional Fees	51,156	-	51,156	21,973	-	21,973
Rent, Utilities, Tax, and Maintenance	88,775	-	88,775	74,099	-	74,099
Office Expense	159,788	-	159,788	165,420	-	165,420
Depreciation and Amortization	189,927	-	189,927	168,154	-	168,154
Travel	100,543	-	100,543	118,888	-	118,888
Advertising	51,591	-	51,591	58,538	-	58,538
General Supplies	43,315	-	43,315	33,415	-	33,415
Veterinary Care	82,991	-	82,991	73,308	-	73,308
Animal Related Expenses	145,068	-	145,068	203,358	-	203,358
Book and Reference Materials	5,399	-	5,399	6,165	-	6,165
Interest	37,677	-	37,677	44,588	-	44,588
Total Expenses	<u>2,101,801</u>	<u>-</u>	<u>2,101,801</u>	<u>2,047,185</u>	<u>-</u>	<u>2,047,185</u>
INCREASE (DECREASE) IN NET ASSETS	664,933	(89,790)	575,143	319,335	(110,296)	209,039
Net Assets - Beginning of Year	<u>3,881,557</u>	<u>113,478</u>	<u>3,995,035</u>	<u>3,562,222</u>	<u>223,774</u>	<u>3,785,996</u>
NET ASSETS - END OF YEAR	<u>\$ 4,546,490</u>	<u>\$ 23,688</u>	<u>\$ 4,570,178</u>	<u>\$ 3,881,557</u>	<u>\$ 113,478</u>	<u>\$ 3,995,035</u>

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 575,143	\$ 209,038
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	189,927	168,154
Amortization of Discount on Promises to Give	(1,420)	(1,420)
Donated Equipment	(6,235)	(31,650)
Donated Securities	(41,015)	-
Realized/Unrealized (Gain) Loss on Investments	(2,138)	-
Amortization of Debt Issuance Costs	1,653	1,653
Changes in Operating Assets and Liabilities:		
Prepaid Expenses	(6,148)	3,769
Pledges Receivable	(11,798)	(38,919)
Other Assets	(940)	155
Accounts Payable	(5,811)	(2,011)
Accrued Expenses	(82,875)	(113,250)
Net Cash Provided by Operating Activities	608,343	195,519
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(157,823)	(186,910)
Proceeds from Sales of Investments	41,537	22,423
Net Cash Used by Investing Activities	(116,286)	(164,487)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(123,184)	(109,823)
Net Cash Used by Financing Activities	(123,184)	(109,823)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	368,873	(78,791)
Total Cash and Cash Equivalents - Beginning of Year	1,443,868	1,522,659
TOTAL CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,812,741	\$ 1,443,868
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	\$ 36,024	\$ 42,935
NONCASH FINANCING AND INVESTING ACTIVITIES		
In-Kind Donations	\$ 89,978	\$ 135,008
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 1,812,741	\$ 1,439,811
Cash Restricted for Long-Term Purpose	-	4,057
Total Cash and Cash Equivalents - End of Year	\$ 1,812,741	\$ 1,443,868

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 995,659	\$ 31,285	\$ 118,627	\$ 1,145,571
Professional Fees	-	51,156	-	51,156
Rent, Utilities, Tax, and Maintenance	80,147	8,628	-	88,775
Office Expense	91,513	68,275	-	159,788
Depreciation and Amortization	170,934	18,993	-	189,927
Travel	85,058	15,485	-	100,543
Advertising	15,039	-	36,552	51,591
General Supplies	39,189	4,126	-	43,315
Veterinary Care	82,991	-	-	82,991
Animal Related Expenses	145,068	-	-	145,068
Book and Reference Materials	5,399	-	-	5,399
Interest	32,421	5,256	-	37,677
Total Expense	<u>\$ 1,743,418</u>	<u>\$ 203,204</u>	<u>\$ 155,179</u>	<u>\$ 2,101,801</u>

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 916,448	\$ 58,440	\$ 104,391	\$ 1,079,279
Professional Fees	-	21,973	-	21,973
Rent, Utilities, Tax, and Maintenance	66,059	8,040	-	74,099
Office Expense	113,071	52,349	-	165,420
Depreciation and Amortization	151,338	16,816	-	168,154
Travel	108,394	10,494	-	118,888
Advertising	23,167	-	35,371	58,538
General Supplies	29,649	3,766	-	33,415
Veterinary Care	73,308	-	-	73,308
Animal Related Expenses	203,358	-	-	203,358
Book and Reference Materials	6,165	-	-	6,165
Interest	38,640	5,948	-	44,588
	<u>\$ 1,729,597</u>	<u>\$ 177,826</u>	<u>\$ 139,762</u>	<u>\$ 2,047,185</u>
Total Expense	<u>\$ 1,729,597</u>	<u>\$ 177,826</u>	<u>\$ 139,762</u>	<u>\$ 2,047,185</u>

See accompanying Notes to Financial Statements.

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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:

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, 2019 and 2018, 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.

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, 2019 and 2018, deferred financing costs were \$16,530. At December 31, 2019 and 2018, accumulated amortization of deferred financing costs was \$8,623 and \$6,970, respectively. Amortization expense related to the deferred financing costs was \$1,653 at December 31, 2019 and 2018.

Net Asset Classification

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization has none with perpetual restrictions as of December 31, 2019. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on 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 statements of activities as Net Assets Released from Restrictions.

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>2019</u>
Veterinary Services	Rates Charged for Similar Services	\$ 17,206
Dogs, Dog Equipment, Food, Medication	Fair Market Value	57,427
Furniture, Equipment	Fair Market Value	6,235
Repairs & Maintenance	Rates Charged for Similar Services	2,367
Meals	Cost of Meal Provided	1,632
Rent, Storage	Current Market Rental Rates	1,169
Legal Services	Rates Charged for Similar Services	84
Supplies	Fair Market Value	3,581
Printing	Rates Charged for Similar Services	277
Total In-Kind Contributions		<u>\$ 89,978</u>

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services, Materials and Rent (Continued)

	<u>Valuation Method</u>	<u>2018</u>
Veterinary Services	Rates Charged for Similar Services	\$ 21,140
Dogs, Dog Equipment, Food, Medication	Fair Market Value	75,551
Furniture, Equipment, CIP	Fair Market Value	31,650
Miscellaneous	Fair Market Value	2,384
Meals	Cost of Meal Provided	1,347
Rent, Storage	Current Market Rental Rates	719
Legal Services	Rates Charged for Similar Services	1,011
Office Supplies	Fair Market Value	1,206
Total In-Kind Contributions		<u>\$ 135,008</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.

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, 2019 and 2018 were \$51,591 and \$58,538, 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 2019 and 2018, the Organization's evaluation did not identify any uncertain tax positions.

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In June 2018, FASB issued Accounting Standards (ASU) 2018-08, Accounting Guidance for Contributions Received and Made. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Our financial statements reflect the application of ASU 2018-08 beginning January 1, 2018. The new guidance does not require prior period results to be restated. The implementation of this standard did not result in any changes to the opening balances of the financial statements.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 5, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020 operations and financial results, including contributions and sponsorships. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

NOTE 2 INVESTMENTS

Investments consist of the following as of December 31:

	2019	2018
Equity Securities	\$ 1,071	\$ -
Money Market Funds	1,046	501
	<u>\$ 2,117</u>	<u>\$ 501</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.

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 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, 2019 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity Securities	\$ 1,071	\$ -	\$ -	\$ 1,071
Total Investments				
Measured at Fair Value	<u>\$ 1,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,071</u>
Money Market Funds				
Measured at Cost				1,046
Total Investments				<u>\$ 2,117</u>

Assets measured at fair value as of December 31, 2018 consisted solely of \$501 of money market funds measured at cost.

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 PROPERTY AND EQUIPMENT

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

	2019	2018
Land	\$ 183,720	\$ 183,720
Building	3,106,682	3,028,100
Furniture and Equipment	194,202	191,534
Vehicles	171,717	180,937
Leasehold Improvements	102,169	71,613
Construction in Progress	-	49,521
Less: Accumulated Depreciation	(450,600)	(371,666)
Total	<u>\$ 3,307,890</u>	<u>\$ 3,333,759</u>

NOTE 5 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. During 2016 and 2017, the Organization financed construction costs for its facilities expansion. Long-term debt at December 31, 2019 consisted of the following:

	Principal	Unamortized Debt Issuance Costs
5.1% mortgage loan, due May 2024, collateralized by property located at 254/272 Ranch Trail with a net book value of \$437,974	\$ 251,327	\$ 5,291
5.1% mortgage loan, due September 2025, collateralized by property located at 302 Ranch Trail with a net book value of \$280,219	216,554	2,616
5.1% construction loan, due June 2023, collateralized by a real estate lien on property located at 254 Ranch Trail with a net book value of \$2,065,383	173,995	-
	<u>\$ 641,876</u>	<u>\$ 7,907</u>

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 LONG-TERM DEBT (CONTINUED)

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 130,294
2021	137,097
2022	144,254
2023	132,813
2024	66,254
Thereafter	31,164
Total Long-Term Debt	<u><u>\$ 641,876</u></u>

Total interest paid including amortization of debt issuance costs on the mortgages was \$37,677 and \$44,588 for the years ended December 31, 2019 and 2018, respectively.

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

The net assets with donor restrictions of the Organization consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Capital Campaign	\$ -	\$ 3,934
Medical Room	-	12,463
Brick Yard	10,788	45,177
Patriot Gardens	9,050	-
"Maggie" Sponsorship	3,850	27,300
Veteran House	-	24,604
Total	<u><u>\$ 23,688</u></u>	<u><u>\$ 113,478</u></u>

NOTE 7 RELATED PARTY TRANSACTIONS

The Organization receives veterinary services from Country Friends Veterinary Clinic where a board member works. Amounts paid to the clinic were \$2,667 and \$6,227, and amounts donated by the clinic were \$-0- and \$3,773 for the years ended December 31, 2019 and 2018, respectively.

The Organization received donated veterinary services of \$15,600 from a board member for each of the years ended December 31, 2019 and 2018.

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 COMMITMENTS AND CONTINGENCIES

General Contractor

On February 8, 2019, the Organization signed a settlement to avoid litigation with a general contractor. Terms of the settlement included reducing the retainage payable owed by the Organization by \$83,300. As this reduction occurred before issuance of the prior year's financial statements, it has, therefore, been recorded on the Statement of Activities as "Settlement Income" as of December 31, 2018.

As of December 31, 2019 and 2018, the Organization was committed to a general contractor for the construction of additional facilities on the campus as follows:

	2019	2018
Total Contract	\$ 2,029,348	\$ 2,029,348
Less: Balance Paid on Contract	(1,946,048)	(1,862,991)
Less: Settlement	(83,300)	(83,300)
Outstanding Commitment, Including Retainage	<u>\$ -</u>	<u>\$ 83,057</u>

Operating Lease

In 2019, the Organization leased facilities to be used for certain programs until January 2020, with an option to extend for two terms of 12 months each. Total expense for this operating lease for the years ended December 31, 2019 and 2018 was \$11,000 and \$0-. Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2020	13,100
2021	14,300
2022	1,200
Total	<u>\$ 28,600</u>

NOTE 9 LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 6 months' operating costs. The purpose of the cash reserves is to ensure during a financial emergency, the business can continue operations uninterrupted.

The following table reflects the Organization's financial assets as of December 31:

	2019	2018
Cash and Cash Equivalents	\$ 1,812,741	\$ 1,439,811
Pledges Receivable, Current	69,057	55,839
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,881,798</u>	<u>\$ 1,495,650</u>

**PATRIOT PAWS SERVICE DOGS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are directly and fully related to program or management and general are categorized as such and not allocated. Direct program expenses, if used by more than one program, are split evenly between them. Salaries and related expenses are allocated based on employee job description and estimated time spent on the function. Expenses, other than salaries and related expenses, which are not directly identifiable by function, are allocated based on square footage.