

**PAWS AND STRIPES INC.**  
**INDEPENDENT AUDITORS' REPORT**  
**AND**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**TABLE OF CONTENTS**

	<b><u>PAGE NUMBER</u></b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets .....	3-4
Statements of Functional Expenses .....	5-6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8 - 13

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Paws and Stripes, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Paws and Stripes, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

**Auditor's 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 auditor's 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 Paws and Stripes, Inc. 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.

  
Patillo, Brown & Hill, L.L.P.  
Albuquerque, New Mexico  
September 12, 2017

**PAWS AND STRIPES INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,779,444	\$ 1,349,603
Accounts receivable	50,975	20,373
Inventory	3,527	-
Deposits	1,000	1,000
<b>Total Current Assets</b>	1,834,946	1,370,976
<b>Fixed Assets</b>		
Land	214,620	214,620
Building	129,533	129,533
Leasehold Improvements	155,000	155,000
Vehicles and Equipment	82,631	70,731
Construction in Progress	49,068	-
	630,852	569,884
Accumulated depreciation	(73,873)	(43,142)
<b>Net Fixed Assets</b>	556,979	526,742
<b>Intangible Assets</b>	8,746	3,622
Accumulated amortization	(246)	-
<b>Net Intangible Assets</b>	8,500	3,622
<b>Total Assets</b>	\$ 2,400,425	\$ 1,901,340
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,005	\$ 14,360
Accrued payroll expenses	6,692	4,589
<b>Total Current Liabilities</b>	9,697	18,949
<b>Net Assets</b>		
Unrestricted	2,305,536	1,761,158
Temporarily restricted	85,192	121,233
<b>Total net assets</b>	2,390,728	1,882,391
<b>Total Liabilities and Net Assets</b>	\$ 2,400,425	\$ 1,901,340

The accompanying notes are an integral part of these financial statements.

**PAWS AND STRIPES INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Program revenue			
Grants	\$ 207,541	\$ 6,000	\$ 213,541
Donations	679,465	170,265	849,730
Public support and other revenues			
Fundraising income	86,925	-	86,925
Merchandise sales	4,731	-	4,731
Other income	5,986	-	5,986
Interest income	422	-	422
Net assets released from restrictions	212,306	(212,306)	-
<b>Total Revenues and Other Support</b>	<u>1,197,376</u>	<u>(36,041)</u>	<u>1,161,335</u>
<b>Expenses</b>			
Program expenses	483,476	-	483,476
Support services			
Management and general	107,317	-	107,317
Fundraising	62,205	-	62,205
Total Expenses	<u>652,998</u>	<u>-</u>	<u>652,998</u>
<b>Change in Net Assets</b>	544,378	(36,041)	508,337
<b>Net Assets at Beginning of Year</b>	<u>1,761,158</u>	<u>121,233</u>	<u>1,882,391</u>
<b>Net Assets at End of Year</b>	<u>\$ 2,305,536</u>	<u>\$ 85,192</u>	<u>\$ 2,390,728</u>

The accompanying notes are an integral part of these financial statements.

**PAWS AND STRIPES INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Program revenue			
Grants	\$ 195,294	\$ 104,000	\$ 299,294
Donations	1,075,789	368,951	1,444,740
<b>Public support and other revenues</b>			
Fundraising income	65,813	-	65,813
Merchandise sales	5,890	-	5,890
Scholarship	-	64,560	64,560
Other income	26,461	-	26,461
Interest income	196	-	196
Net assets released from restrictions	416,278	(416,278)	-
<b>Total Revenues and Other Support</b>	<u>1,785,721</u>	<u>121,233</u>	<u>1,906,954</u>
<b>Expenses</b>			
Program expenses	378,547	-	378,547
Support services			
Management and general	59,564	-	59,564
Fundraising	69,523	-	69,523
Total Expenses	<u>507,634</u>	<u>-</u>	<u>507,634</u>
<b>Change in Net Assets</b>	1,278,087	121,233	1,399,320
<b>Net Assets at Beginning of Year</b>	<u>483,071</u>	<u>-</u>	<u>483,071</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,761,158</u>	<u>\$ 121,233</u>	<u>\$ 1,882,391</u>

The accompanying notes are an integral part of these financial statements.

**PAWS AND STRIPES INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Expenses</b>	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Advertising	\$ 5,126	\$ 146	\$ 320	\$ 5,592
Bank and merchant fees	12,336	3	5	12,344
Contract Services	8,433	-	-	8,433
Depreciation	26,606	2,516	1,955	31,077
Employee benefits	24,914	1,152	440	26,506
Insurance	10,057	-	-	10,057
K9 Service and supplies	12,131	-	-	12,131
Meals	9	-	-	9
Miscellaneous	3,554	-	-	3,554
Occupancy	31,084	5,500	3,830	40,414
Office expenses	8,418	1,259	1,228	10,905
Payroll taxes	13,770	5,716	3,644	23,130
Postage	646	89	123	858
Professional fees	78,272	21,394	2,323	101,989
Repairs and maintenance	98	-	-	98
Salaries and wages	221,569	69,132	46,126	336,827
Staff development	1,467	125	99	1,691
Telephone and internet	4,557	-	-	4,557
Transportation	594	-	309	903
Travel	2,845	285	1,655	4,785
Utilities	-	-	148	148
Veteran support	16,990	-	-	16,990
<b>Total Expenses</b>	<b>\$ 483,476</b>	<b>\$ 107,317</b>	<b>\$ 62,205</b>	<b>\$ 652,998</b>

The accompanying notes are an integral part of these financial statements.

**PAWS AND STRIPES INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Expenses</b>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 4,005	\$ 8	\$ 1,961	\$ 5,974
Bank and merchant fees	2,681	24	-	2,705
Depreciation	8,295	231	3,015	11,541
Employee benefits	25,466	1,460	1,500	28,426
Fundraising expenses	33,651	296	9,543	43,490
Insurance	5,636	1,128	1,158	7,922
K9 Service and supplies	15,029	-	-	15,029
Miscellaneous	15,473	-	64	15,537
Occupancy	22,000	-	-	22,000
Office expenses	8,906	1,406	2,599	12,911
Payroll taxes	16,153	1,882	2,513	20,548
Postage	362	57	84	503
Professional fees	17,740	10,948	5,465	34,153
Repairs and maintenance	125	-	-	125
Salaries and wages	173,112	41,057	38,007	252,176
Staff development	1,352	-	-	1,352
Telephone and internet	4,066	-	-	4,066
Transportation	2,032	-	-	2,032
Travel	3,028	-	3,269	6,297
Utilities	3,861	1,067	345	5,273
Veteran support	15,574	-	-	15,574
<b>Total Expenses</b>	<u>\$ 378,547</u>	<u>\$ 59,564</u>	<u>\$ 69,523</u>	<u>\$ 507,634</u>

The accompanying notes are an integral part of these financial statements.



**PAWS AND STRIPES INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 508,337	\$ 1,399,320
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	30,831	11,541
Amortization	246	-
Donation of land	-	(155,000)
Donation of furniture/equipment	-	(17,650)
Changes in assets and liabilities:		
Accounts receivable	(30,602)	(15,574)
Inventory	(3,527)	-
Intangible assets	(5,124)	(3,622)
Accounts payable	(11,355)	14,360
Accrued payroll expenses	2,103	(1,530)
	<u>490,909</u>	<u>1,231,845</u>
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash Flows from Investing Activities</b>		
Purchase of land	-	(210,000)
Purchase of building	-	(129,533)
Purchase of equipment	(13,650)	(4,857)
Construction in Progress	(49,068)	-
Sale of equipment	1,650	-
Sale of investments	-	1,434
	<u>(61,068)</u>	<u>(342,956)</u>
<b>Net cash provided by (used in) investing activities</b>		
	429,841	888,889
<b>Net increase (decrease) in Cash and Cash Equivalents</b>		
	<u>1,349,603</u>	<u>460,714</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>		
	<u>\$ 1,779,444</u>	<u>\$ 1,349,603</u>
<b>Cash and Cash Equivalents, End of Year</b>		

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

<b>Non-cash Investing and Financing Activities</b>		
Donation of fixed assets at estimated fair value	\$ -	<u>172,650</u>

The accompanying notes are an integral part of these financial statements.

**PAWS AND STRIPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Paws and Stripes, Inc. (Paws and Stripes) was organized in 2010 to assist U.S. military veterans with post-traumatic stress disorder (PTSD) and traumatic brain injury (TBI) as well as local shelter dogs by providing integrative service dog training and mental health support to veterans and their families. The principal sources of revenues are Paws and Stripes' donations and grants.

Basis of Accounting

The financial statements of Paws and Stripes have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Paws and Stripes is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – net assets whose use by Paws and Stripes is subject to donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of Paws and Stripes.

Permanently restricted net assets – net assets whose use by Paws and Stripes is subject to donor-imposed restrictions that cannot be removed by the passage of time or actions of Paws and Stripes.

Paws and Stripes had temporarily restricted net assets, but no permanently restricted net assets for the years ending December 31, 2016 and 2015.

Cash and Cash Equivalents

Paws and Stripes considers all highly liquid investments with maturities of three months or less to be cash equivalents for the purpose of determining cash flows.

Investments

Investments in marketable securities with readily determinable fair values in the statements of financial position. Realized and unrealized gains and losses are as non-operating gain or loss on the statements of activities. Investment income is reported as unrestricted unless specifically restricted by donors or by law.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Paws and Stripes provides for losses on accounts receivable using the allowance method. The allowance is based on experience. It is Paws and Stripes policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. All accounts receivable are deemed to be collectable for the years ending December 31, 2016 and 2015.

**PAWS AND STRIPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Concentration of Donations and Grants

Paws and Stripes received approximately 92% and 91% of its annual revenue from donations and private foundation grants for the years ending December 31, 2016 and 2015, respectively.

Concentration of Risk

In the normal course of business, Paws and Stripes maintains cash balances in multiple financial institutions. Cash accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016 Paws and Stripes' uninsured cash balances were \$1,101,366. At December 31, 2015 Paws and Stripes' uninsured cash balances were \$1,097,618.

Donated Assets

Donated noncash items are recorded as contributions at their estimated fair value at the date of donation.

Income Taxes

Paws & Stripes is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Association's federal Exempt Organization Business Income Tax Returns (Form 990) for the prior three years are subject to examination by the IRS.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Depreciation is computed on a straight-line basis over the useful lives of the assets. Depreciation expense for the years ended December 31, 2016 and 2015 was \$31,077 and \$11,541, respectively.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**PAWS AND STRIPES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time and building square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Paws and Stripes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates are based on management's knowledge and experience. Accordingly, actual results could differ from these estimates.

**2. ADVERTISING**

Paws and Stripes uses advertising to promote their program. The production costs of advertising are expensed as incurred. During the years ending December 31, 2016 and 2015, advertising costs totaled \$5,592 and \$5,974, respectively. For the years ending December 31, 2016 and 2015, \$-0- and \$2,400, respectively, were in-kind donation.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts due from veterans that have disenrolled from the Paws and Stripes program and employees who have terminated their employment contract. Disenrolled veterans agree to pay an assessment of fees and penalties as outlined in their contract upon termination of their program. Penalties are a result of contract violations, so not every veteran who is disenrolled, is charged penalties. Where applicable, terminated employees are required to reimburse Paws and Stripes for training costs if they terminated prior to the end of their employment contract. Accounts receivable also include amounts due from grantors. At December 31, 2016 and 2015, accounts receivable consists of the following:

	2016	2015
Grants	\$ 30,000	\$ 19,500
Sponsorship	16,000	-
Disenrollment	3,225	873
Employee	1,750	-
	\$ 50,975	\$ 20,373

**PAWS AND STRIPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**4. INTANGIBLE ASSETS**

Paws and Stripes incurred \$3,894 and \$1,500 in expenses related to securing a Paws and Stripes trademark for the years ended December 31, 2016 and 2015, respectively. Paws and Stripes incurred \$1,230 and \$2,122 in expenses related to securing Paws and Stripes franchise rights for the years ended December 31, 2016 and 2015, respectively. The trademarks and franchise rights are being amortized over a period of fifteen years. Amortization expense was \$246 and \$-0-, respectively, for the years ended December 31, 2016 and 2015.

**5. DONATED SERVICES AND PROPERTY**

The fair value of donated services and property included in the financial statements and the corresponding program expenses and fixed assets for the years ended December 31, 2016 and 2015 are as follows:

	2016			
	Program	Management and General	Fundraising	Total
Supplies	\$ 31,690	\$ 2,786	\$ 3,418	\$ 37,894
Professional fees	1,527	133	-	1,660
	<u>\$ 33,217</u>	<u>\$ 2,919</u>	<u>\$ 3,418</u>	<u>\$ 39,554</u>

	2015			
	Program	Management and General	Fundraising	Total
Land	\$ 130,975	\$ 13,733	\$ 10,292	\$ 155,000
Supplies	10,847	772	652	12,271
Computer Equipment	10,900	-	-	10,900
Professional fees	6,099	2,301	2,288	10,688
Furniture & Fixtures	4,000	500	500	5,000
Facilities	3,300	-	-	3,300
Vehicles	-	-	1,750	1,750
	<u>\$ 166,121</u>	<u>\$ 17,306</u>	<u>\$ 15,482</u>	<u>\$ 198,909</u>

For the years ending December 31, 2016 and 2015, Paws and Stripes held a special event, Celebration of Heroes. For this event approximately \$34,450 and \$35,331 at December 31, 2016 and 2015, respectively, of items were donated by the public to be auctioned off. The monies received for the sale of these donated items have been included as fundraising income.

**PAWS AND STRIPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**6. OPERATING LEASE**

Paws and Stripes leases office space under a year to year lease. Rent paid under this lease for the years ending December 31, 2016, and 2015 was \$25,200 and \$22,000, respectively.

**7. MEMORANDUMS OF UNDERSTANDING**

Paws and Stripes has Memorandums of Understanding (MOUs) with animal rescue organizations to further their program goals in providing loving, stable homes for homeless dogs and helping military veterans and active duty soldiers with post-traumatic stress disorder, traumatic brain injury and other disabilities. The MOUs are for one year and are reviewed and resigned annually with the consent of both parties. The rescue organization agrees to provide dogs to Paws and Stripes enrollees for no adoption fee. Paws and Stripes agrees to pursue homes for dogs solely for its enrollees and is willing to provide documented proof of veteran enrollment status. The MOUs are with the following organizations:

- Animal Humane/New Mexico
- Luv'n Labs Rescue
- Raton Humane Society
- Santa Fe Animal Shelter and Humane Society
- Watermelon Mountain Ranch

**8. TEMPORARILY RESTRICTED NET ASSETS**

Paws and Stripes, Inc. had the following temporarily restricted net asset activities for the years ended December 31, 2016 and 2015:

	Balance 12/31/2015	Additions	Amount Released	Balance 12/31/2016
Program restrictions:				
Building Fund	\$ 20,898	\$ 170,265	\$ (105,971)	\$ 85,192
Grants	34,500	6,000	(40,500)	-
Scholarships	1,275	-	(1,275)	-
Donations	64,560	12,600	(77,160)	-
	<u>\$ 121,233</u>	<u>\$ 188,865</u>	<u>\$ (224,906)</u>	<u>\$ 85,192</u>
	Balance 12/31/2014	Additions	Amount Released	Balance 12/31/2015
Program restrictions:				
Building Fund	\$ -	\$ 360,451	\$ (339,553)	\$ 20,898
Grants	-	104,000	(69,500)	34,500
Scholarships	-	64,560	-	64,560
Donations	-	8,500	(7,225)	1,275
	<u>\$ -</u>	<u>\$ 537,511</u>	<u>\$ (416,278)</u>	<u>\$ 121,233</u>

**PAWS AND STRIPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**9. RECLASSIFICATION**

Certain items previously reported in the 2015 Statement of Functional Expenses have been reclassified to conform to the current financial statement presentation. These reclassifications had no impact on Net Assets for the year ended December 31, 2015.

**10. SUBSEQUENT EVENTS**

In July of 2017, Paws and Stripes, Inc. moved into its own building. The purchase and renovation of the 15,000 square foot training facility was funded by its Capital Campaign.