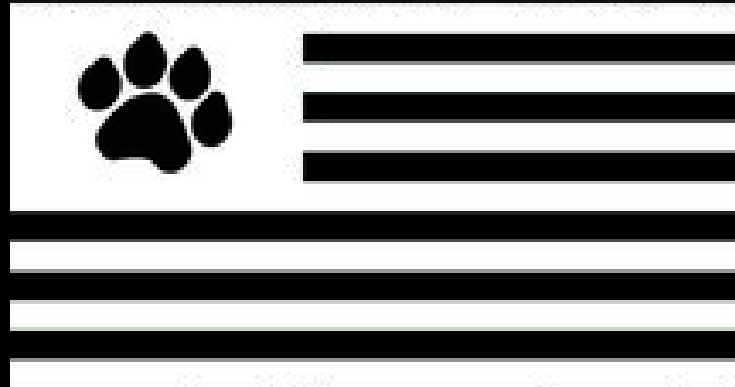


Paws and Stripes

Financial Statements

For the Years Ended December 31, 2019 and 2018

PAWS AND STRIPES



HELPING DOGS, HELPING HEROES

**PAWS AND STRIPES
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INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
Paws and Stripes
Albuquerque, New Mexico

We have audited the accompanying financial statements of Paws and Stripes (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, New Mexico
June 26, 2020

**PAWS AND STRIPES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

Assets	<u>2019</u>	<u>2018</u>
Current assets		
Cash	\$ 2,127,699	\$ 2,200,649
Accounts receivable	8,560	-
Contributions receivable	11,471	47,596
Inventory	<u>11,756</u>	<u>10,081</u>
Total current assets	<u>2,159,486</u>	<u>2,258,326</u>
Non-current and other assets		
Certificate of deposit	-	518,210
Other assets	12,956	16,559
Property and equipment, net	<u>1,479,594</u>	<u>1,519,613</u>
Total assets	<u><u>\$ 3,652,036</u></u>	<u><u>\$ 4,312,708</u></u>
 Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 19,236	\$ 29,127
Accrued expenses	13,947	11,142
Line of credit	<u>-</u>	<u>499,600</u>
Total current liabilities	<u>33,183</u>	<u>539,869</u>
Net assets		
Without donor restrictions	3,617,003	3,768,453
With donor restrictions	<u>1,850</u>	<u>4,386</u>
Total net assets	<u>3,618,853</u>	<u>3,772,839</u>
Total liabilities and net assets	<u><u>\$ 3,652,036</u></u>	<u><u>\$ 4,312,708</u></u>

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

**PAWS AND STRIPES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support			
Contributions			
Grants	\$ 170,261	\$ -	\$ 170,261
Donations	649,088	-	649,088
Fundraising	43,180	-	43,180
Merchandise sales	772	-	772
Interest income	1,475	-	1,475
Miscellaneous	1,843	-	1,843
Net assets released from restrictions	2,536	(2,536)	-
	<u>869,155</u>	<u>(2,536)</u>	<u>866,619</u>
Expenses			
Program services	733,862	-	733,862
Management and general	145,560	-	145,560
Fundraising	141,183	-	141,183
	<u>1,020,605</u>	<u>-</u>	<u>1,020,605</u>
Change in net assets	(151,450)	(2,536)	(153,986)
Net assets, beginning of the year	3,768,453	4,386	3,772,839
	<u>\$ 3,617,003</u>	<u>\$ 1,850</u>	<u>\$ 3,618,853</u>

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

**PAWS AND STRIPES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support			
Contributions			
Grants	\$ 6,237	\$ 148,498	\$ 154,735
Donations	1,418,707	2,000	1,420,707
Fundraising	85,067	-	85,067
Merchandise sales	(1,880)	-	(1,880)
Interest income	9,500	-	9,500
Miscellaneous	788	-	788
Net assets released from restrictions	166,112	(166,112)	-
	<u>1,684,531</u>	<u>(15,614)</u>	<u>1,668,917</u>
Expenses			
Program services	622,880	-	622,880
Management and general	122,195	-	122,195
Fundraising	94,478	-	94,478
	<u>839,553</u>	<u>-</u>	<u>839,553</u>
Change in net assets	844,978	(15,614)	829,364
Net assets, beginning of the year	2,923,475	20,000	2,943,475
	<u>\$ 3,768,453</u>	<u>\$ 4,386</u>	<u>\$ 3,772,839</u>

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

**PAWS AND STRIPES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Support Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$ 393,782	\$ 72,966	\$ 87,516	\$ 554,264
Payroll taxes and benefits	72,039	12,088	13,333	97,460
Professional and consulting fees	30,098	42,293	20,012	92,403
Conferences, meetings & travel	27,667	7,847	2,319	37,833
Supplies and office expense	28,569	2,565	3,689	34,823
K9 service and supplies	29,916	-	-	29,916
Software and IT expenses	22,273	2,731	2,728	27,732
Utilities	23,969	1,598	1,065	26,632
Property maintenance & taxes	18,593	724	614	19,931
Insurance	14,784	1,833	1,833	18,450
Advertising and promotion	4,715	-	6,210	10,925
Bank and merchant fees	7,368	5	420	7,793
Interest expense	5,052	-	-	5,052
Contract services	2,996	518	205	3,719
Veteran support	2,980	-	-	2,980
Postage	1,823	128	648	2,599
Vehicle expenses	1,821	157	252	2,230
Bad debt	2,073	-	-	2,073
Meals and entertainment	1,818	82	164	2,064
Dues and subscriptions	544	-	175	719
Miscellaneous	355	25	-	380
Total expenses before depreciation and amortization	693,235	145,560	141,183	979,978
Depreciation and amortization	40,627	-	-	40,627
Total expenses	\$ 733,862	\$ 145,560	\$ 141,183	\$ 1,020,605

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

**PAWS AND STRIPES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Support Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$ 362,350	\$ 88,365	\$ 66,728	\$ 517,443
Payroll taxes and benefits	52,268	11,021	9,488	72,777
Property maintenance & taxes	34,444	-	-	34,444
Professional and consulting fees	11,754	14,872	6,749	33,375
Interest expense	27,021	-	-	27,021
Bad debt	23,178	-	-	23,178
Utilities	17,423	669	1,119	19,211
Software and IT expenses	13,326	1,153	1,914	16,393
Supplies and office expense	9,485	2,258	3,004	14,747
Insurance	11,901	974	945	13,820
K9 service and supplies	11,844	-	-	11,844
Conferences, meetings & travel	3,902	1,804	1,129	6,835
Bank and merchant fees	4,486	120	790	5,396
Advertising and promotion	3,117	85	949	4,151
Vehicle expenses	2,134	625	1,082	3,841
Meals and entertainment	819	200	238	1,257
Postage	680	49	343	1,072
Veteran support	1,063	-	-	1,063
Miscellaneous	618	-	-	618
Dues and subscriptions	303	-	-	303
Total expenses before depreciation and amortization	592,116	122,195	94,478	808,789
Depreciation and amortization	30,764	-	-	30,764
Total expenses	\$ 622,880	\$ 122,195	\$ 94,478	\$ 839,553

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

**PAWS AND STRIPES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash from contributions	\$ 844,841	\$ 1,659,452
Cash from fundraising and other support	47,270	93,475
Cash paid to employees for services	(648,919)	(608,348)
Cash paid to vendors for goods and services	<u>(334,752)</u>	<u>(191,977)</u>
Net cash (used) provided by operating activities	<u>(91,560)</u>	<u>952,602</u>
Cash flows from investing activities		
Reinvested amounts in certificates of deposit	-	(9,186)
Releases of certificate of deposit from line of credit	<u>518,210</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>518,210</u>	<u>(9,186)</u>
Cash flows from financing activities		
Principal payments on line of credit	<u>(499,600)</u>	<u>-</u>
Net cash used by financing activities	<u>(499,600)</u>	<u>-</u>
Net increase (decrease) in cash	(72,950)	943,416
Cash, beginning of the year	<u>2,200,649</u>	<u>1,257,233</u>
Cash, end of year	<u><u>\$ 2,127,699</u></u>	<u><u>\$ 2,200,649</u></u>
Reconciliation of change in net assets to net cash (used) provided by operating activities:		
Change in net assets	\$ (153,986)	\$ 829,364
Depreciation and amortization expense	40,627	30,764
Bad debt expense	2,073	23,178
Change in assets and liabilities		
Contributions and accounts receivable	25,492	84,010
Inventory and other assets	1,320	(7,130)
Accounts payable	(9,891)	10,544
Accrued expenses	<u>2,805</u>	<u>(18,128)</u>
Net cash (used) provided by operating activities	<u><u>\$ (91,560)</u></u>	<u><u>\$ 952,602</u></u>

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

**PAWS AND STRIPES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1. Organization and Significant Accounting Policies

Paws and Stripes (the “Organization”) is a nonprofit organization and 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 contributions from private sources.

The more significant accounting policies and procedures of the Organization are more fully described below.

Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting.

Financial Statement Presentation. The accompanying financial statements have been prepared so that the presentation of the financial statements will conform to the presentation requirements of FASB ASC 958, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Cash. The Organization considers all highly liquid investments with maturities of three months or less to be cash equivalents for the purposes of cash flows. The Organization has reclassified prior year amounts that meet this criterion on the statement of cash flows.

Investments. Investments in marketable securities are carried at fair value; investments in closely held businesses are carried at their estimated net realizable value. Fair value is 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. Realized gains and losses are recorded on a specific identification method upon the sale of investment assets. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition may differ from the amounts reported in these financial statements. During 2018, Paws and Stripes had a certificate of deposit at a financial institution with an original maturity of 60 months. There are certain penalties for early withdrawal of these funds, including forfeiture of interest. Due to the liquidity of this instrument, it has been classified as an investment and is valued at the original purchase price plus all accrued interest which approximates fair market value.

Concentrations of Credit Risk. The Organization maintains deposit and investment accounts with various financial institutions. Depository accounts with financial institutions are insured by the Federal Deposit Insurance Corporation. Balances in these accounts may, at times, exceed federally or commercially insured limits. The Organization has not experienced any losses on such accounts, and management believes it is not exposed to significant credit risk from these accounts.

Receivables and Contributions. Contributions received, including unconditional promises to give (pledges), are recognized at fair value as revenues in the period received.

**PAWS AND STRIPES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1. Organization and Significant Accounting Policies (continued)

Receivables and Contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Pledges that are expected to be received within one year are recorded at their estimated net realizable value. Pledges that are expected to be received in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free discount rates applicable when the promises are received. Amortization of the discounts is included in contribution revenue however, as of December 31, 2019, all amounts are expected to be collected within one year. Management has not provided an allowance for doubtful unconditional promises, as it is management's estimate that all amounts are fully collectible. Management evaluates the value of pledges receivable on an annual basis to identify any circumstances where the Organization may receive less than what they have recorded. The organization has recorded \$2,073 and \$23,178 in bad debt expenses related to accounts that management has deemed to be uncollectible as of December 31, 2019 and 2018, respectively. During 2019, the Organization had a credit for real estate taxes paid (later abated) in the amount of \$8,560 that is reflected as a receivable as of December 31, 2019.

Inventories. The Organization states inventory at cost. The method for determining cost is first in first out.

Property and Equipment. Acquisitions of property and equipment in excess of \$5,000 are capitalized. 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 contribution 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 which ranges from 5 to 39 years. Depreciation expense for the year ended December 31, 2019 and 2018 was \$40,019 and \$30,165.

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

Net Assets Classification Policies and Procedures. According to FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets. Under these provisions, net assets, revenues, gains, and losses are classified based on the existence or absence of donor-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 restrictions.

**PAWS AND STRIPES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1. Organization and Significant Accounting Policies (continued)

Net Assets With Donor Restrictions – Net assets subject to donor-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 such resources be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Income Taxes. The Organization is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code. The Organization has adopted accounting principles generally accepted in the United States of America, as they relate to uncertain tax positions, and has evaluated its tax positions taken for open tax years. Currently, the 2016, 2017 and 2018 tax years are open and subject to examination. The Organization believes that all activities and transactions are within their tax-exempt purpose, and that there are no uncertain tax positions.

Estimates. Preparation of financial statements in conformity with generally accepted accounting principles requires estimating some of the amounts reported. Actual results could differ from the estimates. Significant estimates in the Organization's financial statements include depreciation on property and equipment and the allocation of functional expenses.

Subsequent Events. Paws and Stripes has evaluated events subsequent to December 31, 2019 that would possibly require adjustment or disclosure in these financial statements, through June 26, 2020, the date that these statements were available to be issued.

The Organization has experienced some interruptions due to the Covid-19 health pandemic. The Organization's entire staff has been working remotely since early March 2020, providing its services with little interruption which has required ongoing use of HIPAA compliant tele-counseling services, virtual meeting platforms, and vigilance on the part of the entire team to maintain communication with clients and each other. Fairly soon after the lock down, an increase in the need for mental health support and crisis intervention was noted among both active and graduated clients. The overall focus of each client's program shifted to well-being, and ongoing stabilization rather than on dog training proficiencies and skills building. Our staff has provided assistance to clients for grocery deliveries, dog food donations, and hands-on help with dogs. A significant impact on fundraising is anticipated for 2020, therefore a Paycheck Protection Program loan was obtained to assist with allowable operational costs.

Reclassifications. Certain reclassifications have been made to the 2018 financial statement presentation to conform to the 2019 presentation.

**PAWS AND STRIPES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2. Unconditional Promises to Give and Contributions Receivable

The Organization has outstanding promises to give and contributions receivable from various donors which are all expected to be collected. The balance of the outstanding unconditional promises to give and other contributions received shortly after year end as of December 31, 2019 and 2018 is \$11,471 and \$47,596, respectively.

NOTE 3. Property and Equipment

A summary of property and equipment and changes occurring during the year ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 337,849	\$ 337,849
Improvements	47,549	47,549
Vehicles	37,739	37,739
Furniture, fixtures, and equipment	34,050	34,050
Buildings	<u>1,170,474</u>	<u>1,170,474</u>
Total property and equipment	1,627,661	1,627,661
Less accumulated depreciation	<u>(148,067)</u>	<u>(108,048)</u>
Net property and equipment	<u>\$ 1,479,594</u>	<u>\$ 1,519,613</u>

NOTE 4. Intangible Assets

The Organization has incurred \$9,171 in expenses, net of accumulated amortization of \$2,036 and \$1,428, respectively, related to securing Paws and Stripes' trademark and franchise rights. The trademarks and franchise rights are being amortized over a period of fifteen years. Amortization expense was \$608 and \$599, respectively, for the years ended December 31, 2019 and 2018. In addition, there are prepaid and other assets totaling \$5,821 and \$8,816 as of December 31, 2019 and 2018, respectively.

NOTE 5. Line of Credit

During 2017, the Organization entered into an agreement with a financial institution to establish a revolving line of credit. The revolving line of credit agreement allows for the Organization to draw against a credit line of \$500,000 and is due on demand. The agreement includes a variable interest rate at 'Prime' (for 2018 was 3.50% plus .25%) with a floor of 4.00%. The outstanding balance on the line of credit as of December 2018 was \$499,600 which was paid off in January 2019. Interest expense for the years ended 2019 and 2018 was \$5,052 and \$27,021, respectively.

**PAWS AND STRIPES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Donor-restricted amounts that are available for use within one year for general purposes include amounts received in prior years for the K-9 Veterinary program that were released during 2019.

	<u>2019</u>	<u>2018</u>
Financial assets at year end	\$ 2,127,699	\$ 2,200,649
Less those unavailable for general expenditures within one year, due to:		
Donor restricted for K-9 Veterinary	<u>(1,850)</u>	<u>(4,386)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,125,849</u>	<u>\$ 2,196,263</u>

As part of the Organization's liquidity management, it retains cash in deposit accounts at financial institutions with a strong financial position and reputation.

NOTE 7. Donated Services

The fair value of donated services and property included in the financial statements and corresponding program expense for the year ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>			
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Supplies	\$ 16,236	\$ -	\$ -	\$ 16,236
Professional fees	-	-	-	-
Total	<u>\$ 16,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,236</u>
	<u>2018</u>			
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Supplies	\$ 9,616	\$ -	\$ -	\$ 9,616
Professional fees	2,474	-	-	2,474
Total	<u>\$ 12,090</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,090</u>

**PAWS AND STRIPES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7. Donated Services (continued)

For the years ended December 31, 2019 and 2018, the Organization held a special event, Celebration of Heroes. The proceeds received for the sale of any donated items have been included in fundraising income.

NOTE 8. Restrictions on Net Assets

Net assets with restrictions consisted of the following purpose restrictions at December 31:

	<u>2018</u>	<u>Additions</u>	<u>Amounts Released</u>	<u>2019</u>
Purpose restriction:				
Grants	\$ -	\$ 30,000	\$ (30,000)	\$ -
K-9 Veterinary Fund	<u>4,386</u>	<u>-</u>	<u>(2,536)</u>	<u>1,850</u>
	<u>\$ 4,386</u>	<u>\$ 30,000</u>	<u>\$ (32,536)</u>	<u>\$ 1,850</u>

NOTE 9. Concentrations

The Organization received a significant percentage of its revenue and support from private donors and grantors. For the years ended December 31, 2019 and 2018, these streams of revenues were 95% and 94%, respectively, of the Organization's total operating revenue. In addition, 100% of the receivables as of December 31, 2019 and 2018 are from private donors or grantors.