

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)

FINANCIAL STATEMENTS
for the year ended December 31, 2018

Weworski & Associates
Certified Public Accountants

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
for the year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
Penngrove, California

We have audited the accompanying financial statements of Paws For Purple Hearts (a California non-profit corporation), herein referred to as “the Organization”, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year 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 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 are 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 For Purple Hearts (a California non-profit corporation) as of December 31, 2018, and the changes in its net assets and its cash flows for year then ended in accordance with accounting principles generally accepted in the United States of America.

Wavershild Associates

San Diego, California
August 23, 2019

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 908,517
Investments	595,171
Accounts receivable	79,198
Inventory	64,342
Prepaid expenses and other current assets	<u>30,455</u>

Total current assets 1,677,683

Property and equipment, net 838,796

Other assets:

Deposits	<u>41,449</u>
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Total assets \$ 2,557,928

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
December 31, 2018

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 345,176
Accrued payroll and other accrued expenses	98,133
Current portion of notes payable	<u>110,656</u>
Total current liabilities	553,965
Notes payable, net of current portion	226,213
Deferred rent	<u>107,187</u>
Total liabilities	887,365
<u>Net assets:</u>	
Without donor restrictions	1,650,063
With donor restrictions	<u>20,500</u>
Total net assets	<u>1,670,563</u>
Total liabilities and net assets	<u><u>\$ 2,557,928</u></u>

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENT OF ACTIVITIES
for the year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue, gains, and other support:</u>			
Contributions:			
Cash donations	\$ 4,972,893	\$ 20,500	\$ 4,993,393
In-kind donations	18,200	-	18,200
Stock donations	89,889	-	89,889
Grant income	79,198	-	79,198
Investment income (loss)	(26,799)	-	(26,799)
Other revenue	11,810	-	11,810
Net assets released from restrictions	35,000	(35,000)	-
Total revenue, gains, and other support	5,180,191	(14,500)	5,165,691
<u>Expenses:</u>			
Program services	4,207,779	-	4,207,779
General and administrative	76,614	-	76,614
Fundraising	1,297,493	-	1,297,493
Total expenses	5,581,886	-	5,581,886
Change in net assets	(401,695)	(14,500)	(416,195)
<u>Net assets, Beginning</u>	2,051,758	35,000	2,086,758
<u>Net assets, Ending</u>	\$ 1,650,063	\$ 20,500	\$ 1,670,563

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENT OF CASH FLOWS
for the year ended December 31, 2018

<u>Cash flow from operating activities:</u>	
Cash received from revenues, gains, and other support	\$ 5,203,181
Cash paid for program and supporting services	<u>(4,799,385)</u>
Net cash provided by operating activities	403,796
<u>Cash flow from investing activities:</u>	
Purchases of property and equipment	(435,076)
Purchase of investments	<u>(170,641)</u>
Net cash used in investing activities	(605,717)
<u>Cash flow from financing activities:</u>	
Payments made on notes payable	(109,022)
Payments made to related party, net	<u>(741,634)</u>
Net cash used in financing activities	<u>(850,656)</u>
Net decrease in cash	(1,052,577)
<u>Cash and cash equivalents, Beginning</u>	<u>1,961,094</u>
<u>Cash and cash equivalents, Ending</u>	<u>\$ 908,517</u>

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENT OF CASH FLOWS
for the year ended December 31, 2018

Reconciliation of change in net assets to net cash
provided by operating activities:

Change in nets assets	\$ (416,195)
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Adjustments to reconcile change in net assets to net cash
provided by operating activities:

Depreciation	206,204
Contribution of investments	89,889
Net depreciation of investments	26,799
Related party licensing and service fees	596,549
Changes in assets and liabilities:	
Accounts receivable, net	(79,198)
Inventory	(28,342)
Prepaid expenses and other current assets	7,169
Deposits	1,840
Accounts payable	(14,465)
Accrued payroll and other accrued expenses	27,852
Deferred rent	(14,306)
	(14,306)
Net cash provided by operating activities	\$ 403,796

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2018

Note 1: Summary of Significant Accounting Policies

The following items comprise the significant accounting policies of the Organization. The policies reflect industry practices and conform to accounting principles generally accepted in the United States of America.

Organization's Activities

Paws For Purple Hearts (the Organization) is a California non-profit corporation that was founded in 2011 to offer therapeutic intervention for veterans and active-duty personnel by teaching those with Post Traumatic Stress Disorder (PTSD) to train service dogs for their comrades with combat-related disabilities. The Organization provides this program at Fairbanks, Alaska; Penngrove and San Diego, California; San Antonio, Texas and Ruther Glen, Virginia.

Financial Statement Presentation

The Organization's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). This standard requires the classification of the Organization's financial position and activities according to two classes of net assets; without donor restrictions and without donor restrictions.

Net asset without donor restrictions - Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions - Net assets that are subject to donor imposed restrictions.

As of December 31, 2018, the Organization has net assets without donor restrictions of \$1,650,063 and net assets with donor restrictions of \$20,500

Use of Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 1: Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, Continued

As of December 31, 2018, the Organization has cash restricted to use of \$20,500. The cash was restricted by the donors to be used for locations in Fairbanks, Alaska, San Diego, California and San Antonio, Texas and was not available for general operating purposes.

Investments

The Organization's investments consist of equity securities and mutual funds. Investments in marketable equity securities with readily determinable fair values are stated at fair value. The Investments have been determined to be Level 1 type investments as their fair values are based on quoted market prices. Dividends, interest, realized and unrealized gains and losses on investments are included in other revenue in the accompanying statement of activities.

Inventory

The Organization trains dogs and has purchased dogs costing \$64,342 and is included in inventory on the accompany statement of financial position.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value on the donation date. Depreciation is computed using the straight-line method over estimated useful lives. Accelerated methods of depreciation are utilized for income tax reporting purposes. Normal repairs and maintenance are expensed as incurred. Expenditures that materially extend the useful life of an asset are capitalized. The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated and any resulting gain or loss on disposition is included in income. Fixed assets are depreciated on the straight-line method over 5 to 7 years.

Contribution Revenues

Revenue derived from contributions is earned when the promise to give is received.

Advertising Costs

Advertising, promotion and similar costs are expensed as incurred.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 1: Summary of Significant Accounting Policies, Continued

Income Taxes

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and is not liable for federal or state income taxes. The Organization could be liable for unrelated business income tax, should it have any income from trade or business activities regularly carried on that are unrelated to the purposes for which it was granted tax exemption. Management does not believe the Organization has any unrelated business income.

U.S. GAAP requires the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service (IRS). The Organization has analyzed the tax positions taken by the Organization, and believes there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Organization's tax filings are subject to audit by various taxing authorities. As of December 31, 2018, the earliest tax year still subject to examination is 2015 for federal purposes and 2014 for state purposes. The Organization believes their estimates are appropriate based on current facts and circumstances.

Functional Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in Note 10. The allocation of functional expenses in Note 10 presents the natural classification detail of expenses by function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expense are tracked using direct identification methodology of charging specific expenses as either program services or institutional support.

Fair Value

Fair value is defined as 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. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 1: Summary of Significant Accounting Policies, Continued

Fair Value, Continued

The definition of the fair value hierarchy is as follows:

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 - Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that market participants would require.

The Organization's investments are reported at fair value. The Organization's remaining financial instruments primarily consist of cash, accounts receivable, inventory, accounts payable, accrued expenses, debt and deferred rent. The carrying values of the Organization's financial instruments approximate fair value.

Concentration of Credit Risk

The Organization maintains its cash balance and cash equivalents in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Organization performs ongoing evaluations of these institutions to limit concentration risk exposure.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 provides guidance in GAAP about the recognition of assets and liabilities by lessees for those leases classified as operating leases under GAAP. The guidance requires that a lessee should recognize in the statement of financial position a liability to make lease payments and a right-to-use asset representing the organization's right to use the underlying assets for the term of the lease. The guidance allows a lessee who enters into a lease with a term of 12 months or less to make an accounting policy election to not recognize assets and liabilities. The provisions of ASU 2016-02 are effective for the fiscal periods beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. The Organization has not yet elected this accounting guidance.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 1: Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). ASU 2016-14 provides guidance in GAAP on how not-for-profit (NFP) entities should present their statements of financial position to increase the transparency of their liquidity, financial performance, and cash flows. The guidance requires NFPs to present on the face of the statement of financial position amounts for two classes of net assets, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. Additionally, the guidance requires enhanced disclosures concerning the amounts and purposes of governing board designations, how restrictions affect the use of resources, how the NFP manages its liquid resources and the ability of an NFP to meet cash needs for general expenditures within one year of the balance sheet date. The provisions of ASU 2016-14 are effective for fiscal periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early application is permitted. The Organization has implemented this accounting guidance.

Note 2: Related Party Transactions

The founder, who is also a member of the board of directors of the Organization, is a member of the board of directors of Bergin University of Canine Studies (BUCS). The Organization entered into a contract with BUCS located in Penngrove, California, as discussed further in Note 7. As a result of the contract, the Organization paid \$741,634 to BUCS during the year ended December 31, 2018, which is included in program services on the accompanying statement of activities. As of December 31, 2018, the Organization has an outstanding liability of \$241,806 as a result of the contract, which is included in accounts payable on the accompanying statement of financial position.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 3: Information about Financial Assets and Liquidity

The Organization's financial assets without donor or other restrictions limiting their use, available within one year of the balance sheet date for general expenditure, are as follows:

Cash and cash equivalents	\$ 908,517
Investments	595,171
Accounts receivable, net	<u>79,198</u>
	<u><u>\$ 1,582,886</u></u>

The Organization's liquidity management policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To manage unanticipated liquidity needs, the investments noted above are available for sale and can be used to fund the operations and future liabilities of the Organization.

Note 4: Investments

Investments in marketable securities are recorded as available for sale. The Organization's investments consist of the following at December 31, 2018:

	Adjusted Cost	Unrealized Gains	Fair Value
Equity securities	\$ 174,199	\$ (15,145)	\$ 159,054
Mutual funds	<u>475,934</u>	<u>(39,817)</u>	<u>436,117</u>
Total	<u><u>\$ 650,133</u></u>	<u><u>\$ (54,962)</u></u>	<u><u>\$ 595,171</u></u>

The Organization reviews its investments for other-than-temporary impairment whenever the fair value of an investment is less than cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. To determine whether an impairment is other-than-temporary, the Organization considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. The Organization did not hold any securities with an other-than-temporary impairment at December 31, 2018.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 5: Property and Equipment

Property and equipment consists of the following:

Furniture and fixtures	\$ 129,760
Leasehold improvements	737,959
Autos and trucks	<u>276,244</u>
	1,143,963
Less: accumulated depreciation	<u>(305,167)</u>
	<u><u>\$ 838,796</u></u>

Depreciation expense for the year ended December 31, 2018 was \$206,204 and is included in program services on the accompany statement of activities.

Note 6: Debt

Debt consists of the following:

The Organization has two notes payable for four vans. The notes payable require monthly payments totaling \$3,419, including interest rate of 4.7% and mature in February and September 2022.

\$ 130,619

The Organization has a note payable to assist with the leasehold improvements at the new locations. The note payable requires monthly principal payment \$6,250, plus interest at a rate of 4.77%, and matures in September 2021.

206,250

Total
Less: current portion

336,869

(110,656)

Long-term portion

\$ 226,213

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 6: Debt, Continued

Future maturities of long-term debt described above are as follows:

<u>Year ending December 31,</u>	
2019	\$ 110,656
2020	112,368
2021	95,413
2022	18,432
Thereafter	-
	<hr/>
	<u>\$ 336,869</u>

Note 7: Agreements

The Organization has an agreement with Bergin University of Canine Studies (BUCS) to provide dogs that are suitable for candidates for training by veterans suffering from psychological scars, curriculum and updates for teaching veterans about training services and assistance dogs and oversight of the program, consulting regarding dogs being trained by the Organization, and services and expenses. The Organization has agreed to identify veterans eligible for dogs, work with veterans under the Organization's supervision, obtain dogs exclusively from BUCS, provide for the health and maintenance of the dogs, to extent possible, and all instructors of the Organization shall be BUCS graduates. In addition, the Organization will return the dogs to BUCS when suitable for placement. The agreement requires the Organization to reimburse BUCS for the cost of services and expenses, and an annual licensing fee of 9.75% of the Organization's revenue from \$250,000 to \$499,000, 8.5% of revenue from \$500,000 to \$749,000, 7.25% of revenue from \$750,000 to \$1,000,000 and 6% of revenue in excess of \$1,000,000. During the year ended December 31, 2018 the Organization recorded \$596,549 for licensing and administrative fees which is included in program services on the accompanying statement of activities. As of December 31, 2018, the Organization owes \$241,806 to BUCS related to the above agreement which is included in accounts payable on the accompanying statement of financial position.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 8: Operating Leases

The Organization leases facilities in Fairbanks, Alaska; Penngrove and San Diego, California; San Antonio, Texas and Ruther Glen, Virginia under various non-cancelable operating leases. The leases require monthly payments totaling \$29,893 and expire at various times through December 2021. In addition, the various leases have scheduled rate increases, provide for rent abatement, require the Organization to pay for common area maintenance and include provisions to extend the leases. During 2018 the lease for the Ruther Glen, Virginia location expired and became a month to month lease.

The Organization has a copier lease under a non-cancelable operating lease, requiring monthly payments totaling \$885 and expires in May 2020.

The future minimum payments under these leases are as follows:

<u>Year ending December 31,</u>	
2019	\$ 287,487
2020	317,003
2021	237,777
Thereafter	-
	\$ 842,267

Rent expense for the year ended December 31, 2018 was \$367,142 and is included in program services on the accompany statement of activities.

Note 9: Commitments and Contingencies

Litigation

Management does not believe the Organization is currently party to any pending or threatened litigation arising from services currently or formerly performed by the Organization. To the extent that there may be pending or threatened litigation that management is unaware of, they do not believe there to be any possible claims that could have a material adverse effect on their business, results of operations or financial condition.

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
NOTES TO THE FINANCIAL STATEMENTS, Continued
for the year ended December 31, 2018

Note 10: Functional Expenses

The following tables present expenses by both their nature and function for the year ended December 31, 2018:

	Program Services	General and Administrative	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 1,168,379	\$ 31,999	\$ 62,893	\$ 1,263,271
Bank fees	47,955	472	16,900	65,327
Contract services	498,935	7,988	8,568	515,491
Dog supplies	91,402	-	-	91,402
Equipment and furniture	20,202	2,697	-	22,899
Office expenses	5,350	-	56	5,406
Mailing lists	77,395	2,039	73,069	152,503
Marketing	63,137	-	4,382	67,519
Occupancy	434,985	-	-	434,985
Postage	572,103	13,706	491,333	1,077,142
Printing and copying	319,737	7,363	263,925	591,025
Supplies	13,529	-	-	13,529
Insurance	27,063	-	-	27,063
Licensing fees	148,928	-	-	148,928
Professional services	428,864	10,350	370,991	810,205
Taxes and licenses	2,189	-	3,942	6,131
Travel and meetings	81,422	-	1,434	82,856
Depreciation	206,204	-	-	206,204
	<u>\$ 4,207,779</u>	<u>\$ 76,614</u>	<u>\$ 1,297,493</u>	<u>\$ 5,581,886</u>

Operating expenses are allocated functionally on a direct basis. Certain categories of expenses are attributable to more than one function, such as salaries, benefits and payroll taxes, services and professional fees, supplies, and penalties and interest.

Note 11: Subsequent Events

Subsequent events were evaluated through August 23, 2019, which is the date the financial statements were available to be issued.