

PAWS AND STRIPES INC.
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of Paws and Stripes, Inc. (a nonprofit organization) as of December 31, 2015, and 2014 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 controls 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

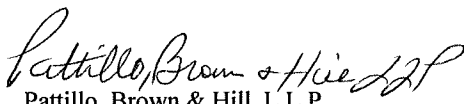
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 controls 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 controls. 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, 2015 and 2014, 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.


Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
September 20, 2016

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PAWS AND STRIPES INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash	\$ 1,349,603	\$ 460,714
Investments	-	1,434
Accounts receivable	20,373	4,799
Deposits	1,000	1,000
Total Current Assets	<u>1,370,976</u>	<u>467,947</u>
Fixed Assets		
Land	214,620	4,620
Building	129,533	-
Leasehold Improvements	155,000	-
Vehicles and Equipment	70,731	48,224
	<u>569,884</u>	<u>52,844</u>
Accumulated depreciation	<u>(43,142)</u>	<u>(31,601)</u>
Net Fixed Assets	<u>526,742</u>	<u>21,243</u>
Intangible Assets	<u>3,622</u>	<u>-</u>
Total Assets	<u><u>\$ 1,901,340</u></u>	<u><u>\$ 489,190</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 14,360	\$ -
Accrued payroll expenses	4,589	6,119
Total Current Liabilities	<u>18,949</u>	<u>6,119</u>
Net Assets		
Unrestricted	1,761,158	483,071
Temporarily restricted	121,233	-
Total net assets	<u>1,882,391</u>	<u>483,071</u>
Total Liabilities and Net Assets	<u><u>\$ 1,901,340</u></u>	<u><u>\$ 489,190</u></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>
Revenues and Other Support			
Program revenue			
Grants	\$ 195,294	\$ 104,000	\$ 299,294
Donations	1,075,789	368,951	1,444,740
Public support and other revenues			
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)	-
	<u>1,785,721</u>	<u>121,233</u>	<u>1,906,954</u>
Total Revenues and Other Support			
Expenses			
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>
Change in Net Assets	1,278,087	121,233	1,399,320
Net Assets at Beginning of Year	<u>483,071</u>	<u>-</u>	<u>483,071</u>
Net Assets at End of Year	<u><u>\$ 1,761,158</u></u>	<u><u>\$ 121,233</u></u>	<u><u>\$ 1,882,391</u></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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Program revenue			
Grants	\$ 32,500	\$ -	\$ 32,500
Donations	672,894	-	672,894
Public support and other revenues			
Fundraising income	57,422	-	57,422
Merchandise sales	6,790	-	6,790
Scholarship	24,414	-	24,414
Other income	16,714	-	16,714
Interest income	33	-	33
Net assets released from restrictions	-	-	-
	<u>810,767</u>	<u>-</u>	<u>810,767</u>
Expenses			
Program expenses	389,873	-	389,873
Support services		-	-
Management and general	66,397	-	66,397
Fundraising	60,286	-	60,286
Total Expenses	<u>516,556</u>	<u>-</u>	<u>516,556</u>
Change in Net Assets	294,211	-	294,211
Net Assets at Beginning of Year	<u>188,860</u>	<u>-</u>	<u>188,860</u>
Net Assets at End of Year	<u><u>\$ 483,071</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 483,071</u></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, 2015

	Program Services	Management and General	Fundraising	Total
Expenses				
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
Licenses and fees	-	-	-	-
Meals	-	-	-	-
Miscellaneous	15,473	-	64	15,537
Office expenses	10,725	1,406	2,599	14,730
Payroll taxes	16,153	1,882	2,513	20,548
Postage	362	57	84	503
Professional fees	15,921	10,948	5,465	32,334
Rent	22,000	-	-	22,000
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
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Total Expenses	\$ 378,547	\$ 59,564	\$ 69,523	\$ 507,634
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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, 2014

	Program Services	Management and General	Fundraising	Total
Expenses				
Advertising	\$ 10,380	\$ -	\$ 2,391	\$ 12,771
Bank and merchant fees	2,386	303	82	2,771
Depreciation	3,586	678	6,638	10,902
Employee benefits	16,081	3,556	3,186	22,823
Fundraising expenses	20,592	-	8,473	29,065
Insurance	4,352	644	711	5,707
K9 Service and supplies	5,643	-	-	5,643
Licenses and fees	279	238	193	710
Meals	27	-	169	196
Miscellaneous	6,687	521	23	7,231
Office expenses	14,826	9,581	6,110	30,517
Payroll taxes	12,878	2,848	2,551	18,277
Postage	513	-	-	513
Professional fees	55,100	14,754	-	69,854
Rent	24,323	-	12	24,335
Repairs and maintenance	795	64	-	859
Salaries and wages	150,165	33,210	29,747	213,122
Staff development	1,884	-	-	1,884
Telephone and internet	4,336	-	-	4,336
Transportation	2,771	-	-	2,771
Travel	2,584	-	-	2,584
Utilities	3,124	-	-	3,124
Veteran support	46,561	-	-	46,561
Total Expenses	<u>\$ 389,873</u>	<u>\$ 66,397</u>	<u>\$ 60,286</u>	<u>\$ 516,556</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 1,399,320	\$ 294,211
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	11,541	10,902
Bad Debt	-	6,577
Donation of Land	(155,000)	-
Donation of furniture/equipment	(17,650)	-
Donation of stock	-	(1,434)
Decrease (increase) in accounts receivable	(15,574)	1,048
Decrease (increase) in prepaid expenses	-	1,824
Decrease (increase) in deposits	-	(1,000)
Decrease (increase) in intangible assets	(3,622)	-
(Decrease) increase in accounts payable	14,360	(1,107)
(Decrease) increase in accrued payroll expenses	(1,530)	4,300
(Decrease) increase in workman's compensation payable	-	(4,451)
	<u>1,231,845</u>	<u>310,870</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities		
Purchase of land	(210,000)	-
Purchase of building	(129,533)	-
Purchase of equipment	(4,857)	(1,500)
Sale of investments	1,434	-
Net cash provided by (used in) investing activities	<u>(342,956)</u>	<u>(1,500)</u>
Net increase (decrease) in Cash and Cash Equivalents	888,889	309,370
Cash and Cash Equivalents, Beginning of Year	<u>460,714</u>	<u>151,344</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,349,603</u></u>	<u><u>\$ 460,714</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Donation of capital assets at estimated fair market value	<u><u>\$ 172,650</u></u>	<u><u>-</u></u>
Donation of stock at estimated fair market value	<u><u>-</u></u>	<u><u>\$ 1,434</u></u>

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

PAWS AND STRIPES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 year ending December 31, 2015. Paws and Stripes had no temporarily or permanently restricted net assets for the year ending December 31, 2014.

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.

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, 2015 and 2014.

Concentration of Donations and Grants

Paws and Stripes received approximately 95% and 85% of its annual revenue from donations and private foundation grants for the years ending December 31, 2015 and 2014, respectively.

PAWS AND STRIPES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Risk

In the normal course of business, Paws and Stripes maintains cash balances in one financial institution. Cash accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2015 Paws and Stripes' uninsured cash balances were \$1,097,618. At December 31, 2014 Paws and Stripes' uninsured cash balances were \$193,172.

Donated Assets

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

Income Taxes

Paws and 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.

Property and Equipment

Acquisitions of property and equipment in excess of \$600 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, 2015 and 2014 was \$11,541 and \$10,902, 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.

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.

PAWS AND STRIPES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2015 and 2014, advertising costs totaled \$5,974 and \$12,771, respectively. For the years ending December 31, 2015 and 2014 \$2,400 and \$6,535, 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 fess and penalties as outlined in their contract upon termination of their program. 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, 2015 and 2014, accounts receivable consists of the following:

	<u>2015</u>	<u>2014</u>
Grants	\$ 19,500	\$ -
Disenrollment	873	-
Employment agreement	<u>-</u>	<u>4,779</u>
	<u>\$ 20,373</u>	<u>\$ 4,779</u>

4. INTANGIBLE ASSETS

In 2015, Paws and Stripes incurred \$1,500 in expenses related to securing a Paws and Stripes trademark as well as \$2,122 in expenses related to securing Paws and Stripes franchise rights. Once these costs are finalized, trademarks and franchise rights will be amortized over their estimated useful lives.

PAWS AND STRIPES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015 and 2014 are as follows:

2015				
	Management and			
	Program	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>

2014			
	Management and		
	Program	General	Total
Professional fees	\$ 55,100	\$ 10,236	\$ 65,336
Stock	1,434	-	1,434
	<u>\$ 56,534</u>	<u>\$ 10,236</u>	<u>\$ 66,770</u>

The financial statements for the year ended December 31, 2014 also included \$37,116 in donated supplies and materials which were not allocated to a function.

For the years ending December 31, 2015 and 2014, Paws and Stripes held a special event, Celebration of Heroes. For this event approximately \$35,331 and \$28,154 at December 31, 2015 and 2014, 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, 2015 AND 2014

6. OPERATING LEASE

Paws and Stripes leases office space under non-cancelable operating leases. Paws and Stripes entered into a lease commencing on September 1, 2011 with a term of three years which was extended through December 31, 2014. Rent paid under this lease for the year ending December 31, 2014 was \$8,494. Paws and Stripes signed a new lease for a different location starting on January 1, 2015. This is a year to year lease. Rent paid under this lease for the year ending December 31, 2015 was \$22,000.

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
 Luvin 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 year ended December 31, 2015:

	Beginning Balance	Additions	Amount Released	Ending Balance
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>

9. CAPITAL CAMPAIGN

After improving its financial standing in 2014, Paws and Stripes created a Capital Campaign to secure funding to purchase a facility in Albuquerque. In 2015 Paws and Stripes was able to purchase land and a building for \$339,533. The building is being renovated with anticipated renovation costs estimated to be between \$500,000 and \$800,000. Paws and Stripes anticipates moving into the building in December of 2016 or January of 2017.

PAWS AND STRIPES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

10. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 20, 2016, which is the date the financial statements were available to be issued.