PATRIOT PAWS SERVICE DOGS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

PATRIOT PAWS SERVICE DOGS
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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Patriot Paws Service Dogs
Rockwall, Texas

We have audited the accompanying financial statements of Patriot Paws Service Dogs, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Patriot Paws Service Dogs

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Patriot Paws Service Dogs as of December 31, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
July 28, 2016

PATRIOT PAWS SERVICE DOGS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,575,170	$ 892,488
Pledges Receivable, Current	315,000	-
Prepaid Expenses	12,116	9,968
Total Current Assets	2,902,286	902,456
OTHER ASSETS		
Property and Equipment	1,259,030	742,467
Pledges Receivable, Noncurrent	26,500	-
Deferred Financing Costs, Net	14,519	11,281
Security Deposits and Other	10,154	9,098
Total Other Assets	1,310,203	762,846
Total Assets	$ 4,212,489	$ 1,665,302
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 16,539	$ 12,829
Accrued Expenses	15,258	17,935
Current Portion Long-Term Debt	69,891	40,525
Total Current Liabilities	101,688	71,289
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	699,342	434,137
Total Liabilities	801,030	505,426
NET ASSETS		
Unrestricted Net Assets	1,662,509	1,159,876
Temporarily Restricted Net Assets	1,748,950	-
Total Net Assets	3,411,459	1,159,876
Total Liabilities and Net Assets	$ 4,212,489	$ 1,665,302

See accompanying Notes to Financial Statements.

PATRIOT PAWS SERVICE DOGS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES						
Contributions:						
Cash	$ 1,806,853	$ 1,747,525	$ 3,554,378	$ 1,235,376	$ -	$ 1,235,376
In-Kind	99,547	-	99,547	132,067	-	132,067
Subtotal Contributions	1,906,400	1,747,525	3,653,925	1,367,443	-	1,367,443
Rental Income	16,800	-	16,800	16,800	-	16,800
Miscellaneous Interest and Fees	2,006	1,425	3,431	1,344	-	1,344
Other Income	36,815	-	36,815	19,424	-	19,424
Net Assets Released from Restrictions	-	-	-	200,754	(200,754)	-
Total Support and Revenues	1,962,021	1,748,950	3,710,971	1,605,765	(200,754)	1,405,011
EXPENSES						
Salaries	724,263	-	724,263	475,509	-	475,509
Professional Fees	32,130	-	32,130	83,858	-	83,858
Rent, Utilities, Tax, and Maintenance	93,760	-	93,760	63,132	-	63,132
Office Expense	116,821	-	116,821	104,007	-	104,007
Depreciation and Amortization	79,854	-	79,854	61,478	-	61,478
Travel	114,847	-	114,847	79,071	-	79,071
Advertising	63,687	-	63,687	45,307	-	45,307
General Supplies	26,137	-	26,137	15,898	-	15,898
Veterinary Care	63,847	-	63,847	72,243	-	72,243
Animal Related Expenses	99,410	-	99,410	74,635	-	74,635
Book and Reference Materials	15,379	-	15,379	3,556	-	3,556
Interest	29,253	-	29,253	14,863	-	14,863
Total Expenses	1,459,388	-	1,459,388	1,093,557	-	1,093,557
INCREASE (DECREASE) IN NET ASSETS	502,633	1,748,950	2,251,583	512,208	(200,754)	311,454
Net Assets - Beginning of Year	1,159,876	-	1,159,876	647,668	200,754	848,422
NET ASSETS - END OF YEAR	$ 1,662,509	$ 1,748,950	$ 3,411,459	$ 1,159,876	$ -	$ 1,159,876

See accompanying Notes to Financial Statements.

PATRIOT PAWS SERVICE DOGS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	$ 2,251,583	$ 311,454
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	79,854	61,478
Donated Equipment	(574)	(31,548)
Changes in Operating Assets and Liabilities:		
Prepaid Expenses	(2,148)	(4,979)
Grant Receivable	-	15,000
Pledges Receivable	(341,500)	19,250
Other Assets	(1,056)	(5,028)
Accounts Payable	3,710	(2,999)
Accrued Expenses	(2,677)	2,462
Net Cash Provided by Operating Activities	1,987,192	365,090
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(594,531)	(693,875)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	340,000	497,000
Principal Payments on Long-Term Debt	(45,429)	(22,338)
Payment of Financing Costs	(4,550)	(11,980)
Net Cash Provided by Financing Activities	290,021	462,682
INCREASE IN CASH AND CASH EQUIVALENTS	1,682,682	133,897
Cash and Cash Equivalents - Beginning of Year	892,488	758,591
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,575,170	$ 892,488
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	$ 29,253	$ 14,863
NONCASH FINANCING AND INVESTING ACTIVITIES		
Donated Equipment	$ 574	$ 31,548
In-Kind Donations	$ 99,547	$ 132,067

See accompanying Notes to Financial Statements.

PATRIOT PAWS SERVICE DOGS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services	Management and General	Fundraising	Total
Salaries	$ 577,680	$ 58,288	$ 88,295	$ 724,263
Professional Fees	6,110	26,020	-	32,130
Rent, Utilities, Tax, and Maintenance	78,571	15,189	-	93,760
Office Expense	99,404	16,809	608	116,821
Depreciation and Amortization	26,773	53,081	-	79,854
Travel	110,438	4,329	80	114,847
Advertising	31,941	-	31,746	63,687
General Supplies	24,158	1,979	-	26,137
Veterinary Care	63,847	-	-	63,847
Animal Related Expenses	99,410	-	-	99,410
Book and Reference Materials	15,379	-	-	15,379
Interest	26,328	2,925	-	29,253
Total Expense	$ 1,160,039	$ 178,620	$ 120,729	$ 1,459,388

See accompanying Notes to Financial Statements.

PATRIOT PAWS SERVICE DOGS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services	Management and General	Fundraising	Total
Salaries	$ 334,413	$ 68,169	$ 72,927	$ 475,509
Professional Fees	29,469	54,389	-	83,858
Rent, Utilities, and Maintenance	50,846	12,286	-	63,132
Office Expense	84,460	18,489	1,058	104,007
Depreciation and Amortization	24,019	37,459	-	61,478
Travel	75,706	2,914	451	79,071
Advertising	15,879	-	29,428	45,307
General Supplies	14,825	1,073	-	15,898
Veterinary Care	72,243	-	-	72,243
Animal Related Expenses	74,635	-	-	74,635
Book and Reference Materials	3,556	-	-	3,556
Interest	13,377	1,486	-	14,863
Total Expense	$ 793,428	$ 196,265	$ 103,864	$ 1,093,557

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Patriot Paws Service Dogs (the Organization) was incorporated in 2005 to be operated as a charitable organization. The Organization's mission is to train service dogs that will enhance the lives of disabled veterans and other Americans with mobile disabilities.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Net Asset Classification

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

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Resources subject to donor imposed restrictions that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets.

Contributions

Contributions, unconditional promises to give, and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Donor-restricted contributions are reported as increases in temporary or permanently restricted net assets, depending on the nature of the restrictions. When these restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all cash and other highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

At times, cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment purchases are recorded at cost. Contributed items are recorded at fair market value at date of donation. If the donor stipulates how long the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted. Depreciation is recorded through the use of the straight-line method over the estimated useful life of the asset. Items costing or valued over $500 are capitalized.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method, a method which approximates the effective interest rate method. At December 31, 2015 and 2014, deferred financing costs were $16,530 and $11,980, respectively. At December 31, 2015 and 2014, accumulated amortization of deferred financing costs was $2,011 and $699, respectively. Amortization expense related to the deferred financing costs was $1,312 and $699, respectively.

Donated Services, Materials, and Rent

Contributions of noncash assets (materials and rent) are recorded at their fair values in the period received. Contributions of services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

The Organization has received the following in-kind donations for the years ended December 31:

	Valuation Method	2015
Veterinary Services	Rates Charged for Similar Services	$ 20,037
Dogs, Dog Equipment, Food, Medication	Fair Market Value	66,807
Equipment and Software	Fair Market Value	393
Miscellaneous	Fair Market Value	8,970
Gift Cards	Gift Card Value	200
Meals	Cost of Meal Provided	980
Legal Services	Rates Charged for Similar Services	814
Painting	Fair Market Value	1,346
Total In-Kind Contributions		$ 99,547

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services, Materials and Rent (Continued)

	Valuation Method	2014
Veterinary Services	Rates Charged for Similar Services	$ 25,832
Dogs, Dog Equipment, Food, Medication	Fair Market Value	41,850
Equipment and Software	Fair Market Value	17,351
Miscellaneous	Fair Market Value	10,229
Gift Cards	Gift Card Value	1,064
Meals	Cost of Meal Provided	3,850
Rent, Storage	Current Market Rental Rates	553
Legal Services	Rates Charged for Similar Services	4,325
Printing	Fair Market Value	7,925
Vehicle	Fair Market Value	19,088
Total In-Kind Contributions		$ 132,067

All of the donated materials are program in nature and reflected in the functional expenses as such. A large number of volunteers support the Organization's operations. These services are not reflected in the financial statements because they do not meet the requirement for recording of services in accordance with accounting principles generally accepted in the United States of America as they neither 1) enhance the value of a nonfinancial asset nor 2) are provided by a professional within their profession.

Functional Allocation of Expense

Salaries and related expenses are allocated based on timesheets maintained by management. Expenses, other than salaries and related expenses, which are not directly identifiable by function, are allocated based on the best estimates of management.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates used.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense for the years ended December 31, 2015 and 2014 were $63,687 and $45,307, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax

The Organization has tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The Organization has adopted guidance in the income tax standard regarding the recognition of uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. During 2015 and 2014, the Organization's evaluation did not identify any uncertain tax positions.

Fair Value Measurements

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Organization follows the accounting policy which measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. The Organization currently does not have any financial assets or financial liabilities that are measured at fair value on a recurring or non-recurring basis.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 28, 2016, the date the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

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

	2015	2014
Land	$ 183,720	$ -
Building	826,280	610,000
Furniture and Equipment	75,705	68,296
Vehicles	222,709	187,940
Leasehold Improvements	47,305	53,319
Construction in Progress	99,008	-
Less: Accumulated Depreciation	(195,697)	(177,088)
Total	$ 1,259,030	$ 742,467

NOTE 3 LONG-TERM DEBT

In May 2014, the Organization financed the purchase of a building property adjacent to its current location for future expansion. The term of the $497,000 mortgage is 10 years and requires monthly principal and interest payments of $5,315 with a fixed interest rate of 5.10%. In September 2015, the Organization financed the purchase of a building property adjacent to its current location for future expansion. The term of the $340,000 mortgage is 10 years and required monthly principal and interest payments of $3,635 with a fixed interest rate of 5.10%.

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

Year Ending December 31,	Amount
2016	$ 69,891
2017	73,541
2018	77,380
2019	81,420
2020	85,670
Thereafter	381,331
Total Long-Term Debt	$ 769,233

Total interest paid on the mortgage was $29,253 for the year ended December 31, 2015.

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets of the Organization consist of the following at December 31:

	2015	2014
Capital Campaign	$ 1,407,450	$ -
Capital Campaign - Time Restricted	300,000	-
General Mission Purpose - Time Restricted	41,500	-
Total	$ 1,748,950	$ -

NOTE 5 OPERATING LEASES

The Organization leases office space and two apartments. The leases require monthly payments of $3,150. For the years ended December 31, 2015 and 2014, total rent expense related to the lease was $20,400 and $18,600, respectively. Future obligations under this lease are as follows:

Year Ending December 31,	Amount
2016	$ 12,550

NOTE 6 RELATED PARTY TRANSACTIONS

The Organization receives veterinary services from Country Friends Veterinary Clinic where a board member works. Amounts paid to the clinic were $35,200 and $42,507 for the years ended December 31, 2015 and 2014, respectively. Additionally, the Organization received $5,040 in contributions from board members, and $24 in contributions from employees for the year ended December 31, 2015.