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

FINANCIAL STATEMENTS
for the year ended December 31, 2016

Weworski & Associates
Certified Public Accountants

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
for the year ended December 31, 2016

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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, 2016, 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.

Wawroski & Associates

San Diego, California
June 29, 2017

WEWORSKI
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2016, and the related statements of activities, functional expenses 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 evidences we have obtained are sufficient and appropriate to provide a basis for our audit opinion.

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PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

Current assets:	
Cash and cash equivalents	1,539,196
Investments	429,769
Inventory	30,131
Prepaid expenses and other current assets	65,203
Total current assets	2,064,299
Property and equipment, net	98,551
Other assets:	
Deposits	79,569
Total assets	$ 2,242,419

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 54,449
Accrued payroll and other accrued expenses	21,323
Due to related party	450,830
Total current liabilities	526,602
Net assets:	
Unrestricted	1,697,817
Temporarily restricted	18,000
Total net assets	1,715,817
Total liabilities and net assets	$ 2,242,419

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, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support:			
Contributions:			
Cash donations	$ 3,627,494	$ 18,000	$ 3,645,494
In-kind donations	4,729	-	4,729
Non-operating income	9,079	-	9,079
Investment income (loss)	(4,739)	-	(4,739)
Transfer to unrestricted	141,645	(141,645)	-
Total revenue, gains, and other support	3,778,208	(123,645)	3,654,563
Expenses:			
Program services	2,255,661	-	2,255,661
General and administrative	54,849	-	54,849
Fundraising	992,269	-	992,269
Total expenses	3,302,779	-	3,302,779
Change in net assets	475,429	(123,645)	351,784
Net assets, Beginning	1,222,388	141,645	1,364,033
Net assets, Ending	$ 1,697,817	$ 18,000	$ 1,715,817

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2016

	Program Services	General and Administrative	Fundraising	Total
Salaries	$ 818,629	$ 22,020	$ -	$ 840,649
Employee benefits, payroll taxes and compensation insurance	106,861	1,685	-	108,546
Total salaries and related expenses	925,490	23,705	-	949,195
Expenses:				
Bank fees	24,801	-	-	24,801
Contract services	124,031	2,750	9,539	136,320
Dog supplies	33,918	-	-	33,918
Interest	14,551	-	-	14,551
Office expenses	5,459	-	60	5,519
Mailing lists	40,282	1,636	56,352	98,270
Marketing	54,545	-	400	54,945
Occupancy	117,470	-	-	117,470
Postage	313,751	11,584	399,124	724,459
Printing and copying	170,091	5,951	205,048	381,090
Supplies	11,204	-	-	11,204
Insurance	11,448	-	-	11,448
Licensing fees	67,381	-	-	67,381
Professional services	268,600	9,223	317,576	595,399
Taxes and licenses	3,224	-	4,170	7,394
Travel and meetings	51,592	-	-	51,592
Total expenses before depreciation expense	2,237,838	54,849	992,269	3,284,956
Depreciation	17,823	-	-	17,823
Total functional expenses	$ 2,255,661	$ 54,849	$ 992,269	$ 3,302,779

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENTS OF CASH FLOWS
for the year ended December 31, 2016

Cash flow from operating activities:	
Cash received from revenues, gains, and other support	$ 3,653,702
Cash paid for program and supporting services	(3,151,587)
Net cash provided by operating activities	502,115
Cash flow from investing activities:	
Purchases of property and equipment	(54,765)
Purchase of investments	(401,020)
Net cash used in investing activities	(455,785)
Cash flow from financing activities:	
Payment made to related party, net	(220,452)
Net decrease in cash	(174,122)
Cash, Beginning	1,713,318
Cash, Ending	$ 1,539,196

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

PAWS FOR PURPLE HEARTS
(A California Non-Profit Corporation)
STATEMENTS OF CASH FLOWS
for the year ended December 31, 2016

Reconciliation of change in net assets to net cash provided by operating activities:		
Change in nets assets	$	351,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		17,824
Contribution of investments		3,878
Loss on depreciation of investments		(4,739)
Related party licensing and service fees		287,496
Changes in assets and liabilities:		
Inventory		(17,981)
Prepaid expenses and other current assets		(58,865)
Deposits		(78,069)
Accounts payable		(1,426)
Accrued payroll and other accrued expenses		2,213
Net cash provided by operating activities	$	502,115

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, 2016

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; Rohnert Park 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 Codifications (ASC) 958-205, *Presentation of Financial Statements.* This standard requires the classification of the Organization's financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are currently available at the discretion of the Organization and are not restricted by donor imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor imposed stipulations that will be met by action of the Organization and/or the passage of time. The Organization has no temporarily restricted net assets for the year ended December 31, 2016.

Permanently Restricted Net Assets - Net assets subject to donor imposed stipulations that they are maintained permanently by the Organization.

As of December 31, 2016, the Organization has unrestricted net assets of $1,697,817 and temporarily restricted net assets of $18,000.

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.

Note 1: Summary of Significant Accounting Policies, Continued

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.

As of December 31, 2016, the Company has cash restricted to use of $18,000. The cash was restricted by the donors to be used for new locations in Fairbanks, Alaska, San Diego, California and San Antonio, Texas that were opened during 2016 and was not available for general operating purposes. In addition, a portion of the temporarily restricted funds were required to be used at the Ruther Glen, Virginia location, which occurred in 2016.

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 $24,600 and is included in inventory on the accompany statement of financial position. In addition, the Organization has various apparel items that the Organizations sells to customers. The dogs are stated at the lower of cost or market value.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value on the donation date. Fixed assets are depreciated on the straight-line method over 5 to 7 years.

Note 1: Summary of Significant Accounting Policies, Continued

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.

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, 2016, the earliest tax year still subject to examination is 2013 for federal purposes and 2012 for state purposes. The Organization believes their estimates are appropriate based on current facts and circumstances.

Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Note 1: Summary of Significant Accounting Policies, Continued

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.

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, inventory, accounts payable and accrued payroll. 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.

Note 1: Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements - Going Concern* (Subtopic 205-40). The guidance in ASU 2014-15 provides guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The guidance requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The provisions of ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Organization has implemented this accounting alternative.

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 company'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.

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 not yet elected 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 Rohnert Park, California, as discussed further in Note 5. As a result of the contract, the Organization paid $220,452 to BUCS during the year ended December 31, 2016, which is included in program services on the accompanying statement of activities. As of December 31, 2016, the Organization has an outstanding liability of $244,490 as a result of the contract, which is included in due to related party on the accompanying statement of financial position.

The Organization has also received funding from BUCS to assist in starting the non-profit and providing financing to the Organization. As a result, the Organization received advances from BUCS of $4,758 during the year ended December 31, 2016. As of December 31, 2016, the Organization has a related party payable of $206,340 from funding provided to PPH by BUCS. The outstanding balance is included in due to related party on the accompany statement of financial position.

Note 3: Investments

Investments in marketable securities are recorded as held for sale. The Organization's investments were comprised of the following at December 31, 2016:

	Adjusted Cost	Unrealized Gains	Fair Value
Equity securities	$ 18,476	$ 653	$ 19,129
Mutual funds	416,032	(5,392)	410,640
Total	$ 434,508	$ (4,739)	$ 429,769

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, 2016.

Note 4: Property and Equipment

Property and equipment consists of the following:

Furniture and fixtures	$ 64,844
Autos and trucks	53,719
	118,563
Less: accumulated depreciation	(20,012)
	$ 98,551

Depreciation expense for the year ended December 31, 2016 was $17,824 and is included in program services on the accompany statement of activities.

Note 5: 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, 2016 the Organization recorded $287,496 for licensing and administrative fees which is included in program services on the accompanying statement of activities. As of December 31, 2016, the Organization owes $244,490 to BUCS related to the above agreement which is included in due to related party on the accompanying statement of financial position.

Note 6: Operating Leases

The Organization leases facilities in Fairbanks, Alaska; Rohnert Park 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 increase, provide for rent abatement, require the Organization to pay for common area maintenance and include provisions to extend the leases.

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

Note 6: Operating Leases, Continued

The future minimum payments under these leases are as follows:

Year ending December 31,		
2017	$	285,349
2018		309,612
2019		309,450
2020		316,389
2021		264,266
Thereafter		-
	$	1,485,066

Rent expense for the year ended December 31, 2016 was $90,571 and is included in program services on the accompany statement of activities.

Note 7: 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.

Note 8: Subsequent Events

Subsequent events were evaluated through June 29, 2017, which is the date the financial statements were available to be issued.