

**PETS FOR PATRIOTS, INC.**

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FINANCIAL STATEMENTS

DECEMBER 31, 2017

**PETS FOR PATRIOTS, INC.**

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**TABLE OF CONTENTS**

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INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 – 11



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pets For Patriots, Inc.

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Pets For Patriots, Inc. ("the Organization") (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2017, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pets For Patriots, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**MBAF CPAs, LLC**

New York, NY  
October 26, 2018

An Independent Member of Baker Tilly International

**PETS FOR PATRIOTS, INC.**  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017

**ASSETS**

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CURRENT ASSETS:

Cash	\$ 106,733
Investments	469,669
Contributions receivable	11,415
Interest receivable	2,676
Prepaid expenses	5,508
Property and equipment, net	14,630
	<hr/>
	<b>\$ 610,631</b>

**LIABILITIES AND NET ASSETS**

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LIABILITIES:

CURRENT LIABILITIES

Accounts payable and other liabilities	\$ 1,440
Credit card payable	14,456
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	15,896

NET ASSETS:

Unrestricted	581,610
Temporarily restricted	13,125
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	594,735
	<hr/>
	<b>\$ 610,631</b>

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

**PETS FOR PATRIOTS, INC.**  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES:</b>			
Contributions	\$ 307,013	\$ 7,380	\$ 314,393
Investment income	25,343	-	25,343
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>12,901</u>	<u>(12,901)</u>	<u>-</u>
Total revenues	345,257	(5,521)	339,736
<b>EXPENSES:</b>			
Program	254,146	-	254,146
Management and general	19,558	-	19,558
Fundraising	<u>19,149</u>	<u>-</u>	<u>19,149</u>
Total expenses	<u>292,853</u>	<u>-</u>	<u>292,853</u>
CHANGE IN NET ASSETS	52,404	(5,521)	46,883
NET ASSETS - BEGINNING OF YEAR (AS ORIGINALLY REPORTED)	506,689	18,646	525,335
PRIOR PERIOD ADJUSTMENT (NOTE 7)	<u>22,517</u>	<u>-</u>	<u>22,517</u>
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	<u>529,206</u>	<u>18,646</u>	<u>547,852</u>
NET ASSETS, END OF YEAR	<b><u>\$ 581,610</u></b>	<b><u>\$ 13,125</u></b>	<b><u>\$ 594,735</u></b>

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

**PETS FOR PATRIOTS, INC.**  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Veterans' pet food bank program and veterinary care subsidies	\$ 69,232	\$ -	\$ -	\$ 69,232
Officer salary	75,075	4,171	4,171	83,417
Salaries	26,100	-	700	26,800
Payroll taxes and benefits	18,818	1,045	1,045	20,908
Development and fundraising	-	-	3,697	3,697
Printing and advertising	7,775	-	409	8,184
Office supplies and expenses	-	4,980	-	4,980
Travel and hotel	896	112	112	1,120
Computer and website	43,123	2,396	2,396	47,915
Professional fees	3,100	3,100	-	6,200
Depreciation and amortization	5,273	1,758	5,525	12,556
Miscellaneous	4,754	1,996	1,094	7,844
<b>TOTAL EXPENSES</b>	<b>\$ 254,146</b>	<b>\$ 19,558</b>	<b>\$ 19,149</b>	<b>\$ 292,853</b>

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

**PETS FOR PATRIOTS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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Cash flows from operating activities:	
Change in net assets	\$ 46,883
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	12,556
Realized loss on investments	2,092
Unrealized gain on investments	(20,140)
Changes in operating assets and liabilities:	
Contributions receivable	16,102
Interest receivable	(205)
Prepaid expenses	8,262
Accounts payable and other liabilities	(6,557)
Credit card payable	2,898
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>61,891</u>
Cash flows from investing activities:	
Proceeds from sale of investments	89,571
Purchase of investments	<u>(95,725)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(6,154)</u>
NET INCREASE IN CASH	55,737
CASH, BEGINNING OF YEAR	<u>50,996</u>
<b>CASH, END OF YEAR</b>	<u><b>\$ 106,733</b></u>

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

## PETS FOR PATRIOTS, INC.

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 1. ORGANIZATION

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Pets For Patriots, Inc. (the "Organization") is a nonprofit organization exempt from income tax under Section 501 (c)(3) of the U.S. Internal Revenue Code. The purpose of the Organization is to conduct activities, which are exclusively charitable and educational.

The Organization's mission is to transform the lives of our veterans by helping them save an at – risk shelter dog or cat, to end animal homelessness in the U.S. and enrich the lives of the men and women who serve and have served our country. The Organization also provides access to additional cost reductions for veterinary services and pet basics.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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##### **Financial Statement Presentation**

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the Organization's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

These three classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

##### **Investments**

Investments are recorded at fair value based upon quoted market prices. The related dividend and interest income is recorded as unrestricted income in the statement of activities.



## PETS FOR PATRIOTS, INC.

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### **Contributions Receivable**

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of any donor restrictions. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Organization has determined that no allowance for uncollectible receivables is necessary as of December 31, 2017. Such estimate is based on management's assessments of the creditworthiness of its contributors, the aged basis of its receivables, as well as current economic conditions and historical information.

#### **Revenue Recognition**

The Organization recognizes contributions when received or when an unconditional promise to give is received.

#### **Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. The Organization capitalizes all assets having a useful life of more than one year and a cost greater than \$500. Purchases below \$500 are expensed at the time of acquisition. Depreciation is calculated using a straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are charged to operations as incurred; additions and betterments are capitalized.

#### **Donated Services**

Donated services are recognized as revenue if the services received create or enhance non-financial assets, require specialized skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation. Accordingly, the Organization does not record the value of those volunteer hours that do not meet the criteria for recognition under U.S. GAAP.

#### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses that can be directly identified with the program or supporting services to which they relate are charged accordingly. Certain expenses have been allocated among program and supporting service classifications using payroll allocations or based on benefits received.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Income Taxes**

The Organization files informational returns in the federal and New York State jurisdictions. The Organization is generally no longer subject to income tax examinations by the Internal Revenue Service or New York State for returns filed before 2014.

The accounting standard for uncertainty in income taxes prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure, and transition.

## PETS FOR PATRIOTS, INC.

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Income Taxes (continued)

The Organization may be subject to audit by tax authorities. The Organization believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the Organization would classify it as "Interest Expense." The Organization would classify penalties in connection with underpayments of income tax as "Other Expense."

### Fair Value Measurements and Fair Value - Definition and Hierarchy

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.

Accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable units be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about inputs used by market participants at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Valuation based on quoted prices for similar assets or liabilities in active markets; for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally or corroborated by observable market data by correlation or other means.

Level 3 - Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The Organization is currently evaluating the effect the update will have on its financial statements.

## PETS FOR PATRIOTS, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Recent Accounting Pronouncements (Continued)

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The Organization is currently evaluating the effect the update will have on its financial statements.

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

### Subsequent Events

The Organization has evaluated events through October 26, 2018, which is the date the financial statements were available to be issued.

## 3. INVESTMENTS

The Organization determines the fair values of its investments based on quoted market prices.

The Organization's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risks associated with these investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and the statement of activities.

The following tables present by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2017. As required by fair value measurement accounting standards, investments are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement. The investments are all classified as unrestricted net assets.

	Fair Value on a Recurring Basis	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Exchange traded funds	\$ 114,157	\$ 114,157	\$ -	\$ -
Corporate debt securities	182,440	182,440	-	-
U.S. Government and agency obligations	173,072	173,072	-	-
	<b>\$ 469,669</b>	<b>\$ 469,669</b>	<b>\$ -</b>	<b>\$ -</b>

**PETS FOR PATRIOTS, INC.**

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**3. INVESTMENTS (CONTINUED)**

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The aggregate cost basis, gross unrealized gains and losses, and fair market value of the stocks and mutual funds at December 31, 2017 are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Exchange traded funds	\$ 87,850	\$ 26,307	\$ -	\$ 114,157
Corporate debt securities	186,120	-	(3,680)	182,440
U.S. Government and agency obligations	183,253	-	(10,181)	173,072
	<u>\$ 457,223</u>	<u>\$ 26,307</u>	<u>\$ (13,861)</u>	<u>\$ 469,669</u>

Investment activity for the year December 31, 2017 consist of the following:

Investments, beginning of year	\$ 445,467
Purchase of investments	95,725
Sale of investments	(89,571)
Realized loss	(2,092)
Unrealized gain	20,140
Investments, end of year	<u>\$ 469,669</u>

**4. PROPERTY AND EQUIPMENT**

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At December 31, 2017, property and equipment consists of the following:

		<u>Useful Life</u>
Equipment	\$ 2,956	5 years
Website and software	68,013	3 years
	<u>70,969</u>	
Less: accumulated depreciation and amortization	<u>(56,339)</u>	
	<u>\$ 14,630</u>	

Depreciation and amortization for the year ended December 31, 2017 amounted to \$12,556.

**5. CONCENTRATIONS**

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Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

**PETS FOR PATRIOTS, INC.**

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**6. NET ASSETS**

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**Temporarily Restricted Net Assets**

Temporarily restricted net assets of \$13,125 at December 31, 2017 are purpose restricted for veterinary care.

Net assets of \$12,901 were released from restrictions by satisfying the restricted purposes during the year ended December 31, 2017.

**7. PRIOR PERIOD ADJUSTMENT**

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The Organization has restated its January 1, 2017 unrestricted net assets to reflect corrected contributions receivable at December 31, 2016 and contributions income for the year ended December 31, 2016. The Organization understated its December 31, 2016 net assets by not recognizing \$22,517 of contribution income in 2016.

The total effect of the prior period adjustment resulted in an increase of net assets at January 1, 2017 by \$22,517, as reflected below:

	<u>As Previously Reported</u>		<u>Adjustment</u>		<u>As Restated</u>
Net assets, unrestricted	\$ 525,335	\$	22,517	\$	547,852